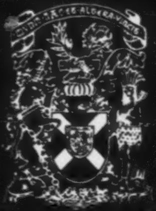

Nova Scotia

REPORT OF THE

AUDITOR GENERAL

2002 HIGHLIGHTS

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OVERVIEW AND SIGNIFICANT ISSUES

(Pages 8 - 12)

1.1 I believe that acting on the recommendations contained in this and prior reports would assist government in achieving its fiscal objectives. Better management and decision making is critical and while I acknowledge the improvements that have been made over the last number of years, better systems and better (not more) information at all levels is necessary.

1.2 Again this year I would like to thank my staff for their efforts and support. It was a busy year and they worked diligently, professionally and enthusiastically in carrying out their projects. Those whom we audit are also professional, cooperative and courteous and I wish to thank them.

GOVERNMENT-WIDE ISSUES

ACCOUNTABILITY INFORMATION AND REPORTING

(Pages 14 - 36)

2.1 As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance is now required by law. The initial reporting on outcomes under this requirement, titled *Annual Accountability Report,* was released December 20, 2001.

2.2 Performance information or reports provided by government to MLAs should be relevant, reliable and understandable. The implementation and evolution of such reporting, and the effective use of the information by government and MLAs for accountability purposes, will require a significant sustained commitment. The *Annual Accountability Report* represents an important step in the accountability reporting process.

2.3 The Auditor General's Report, required under Section 9B of the Auditor General Act, on the 2002-03 revenue estimates was dated March 28, 2002 and tabled in the House on April 4, 2002 along with the Nova Scotia Budget for the fiscal year 2002-03.

2.4 In addition, summary comments and suggestions resulting from our review procedures were communicated to the Department of Finance.

2.5 At the time of writing this Report, the Province's March 31, 2002 summary consolidated financial statements were to be released in December 2002 as part of Volume I of the *Public Accounts*. The Auditor's Report, dated October 18, 2002, on the consolidated financial statements was unqualified.

2.6 During the course of our audit of the government's March 31, 2002 summary consolidated financial statements, various findings and observations were noted. The June 2000 changes to the Provincial Finance Act provide for more oversight control by the Minister of Finance and Executive Council of financial management systems and significant transactions of all entities included in the government's reporting entity. A number of matters have come to our attention that indicate a lack of awareness and understanding of statutory and policy requirements for financial management and control of the public purse.

2.7 The scope and mandate of the Department of Finance's controllership function, as it relates to implementation of accounting policy decisions and reporting standards within the government's reporting entity, need to be clearly defined and communicated. Further, the Department of Finance's Government Accounting Division needs to be made aware of significant transactions or decisions, and be more directly involved, on a timely basis, in determining the accounting consequences and other considerations.

2.8 The government, with leadership from the Department of Finance, needs to continue and possibly expand its efforts to monitor Public Sector Accounting Board initiatives as well as relevant accounting recommendations from the Canadian Institute of Chartered Accountants and internationally, in order to ensure adjustments necessary to government's financial planning, budgeting and reporting remain in accordance with generally accepted accounting principles and are implemented on a timely and effective basis.

2.9 Again this year we found that a variety of expenses are being charged as restructuring costs which should be reported against other appropriations. Further, the accounting control and processes for this account need to be examined. Due to unnecessary complexity of the accounting during 2002 and an inadequate management/audit trail, significant time was required by Department of Finance Government Accounting staff to analyze the transactions posted by Treasury and Policy Board. This analysis resulted in significant adjustments to the balance in the general ledger at year end, including correction of double counting of expenses of approximately $84 million. Further, the audit of the final balance was delayed and required significant additional efforts by this Office.

2.10 In prior Reports, we have suggested that the accounting policies and practices for Federal-Provincial revenues be subject to review. Our experiences on this year's audit of the Province's summary consolidated financial statements have provided more support for the requirement for a thorough and comprehensive review.

2.11 The deployment of the financial information system SAP R/3 across the Provincial public sector is a major undertaking to be addressed through specific projects over the next several years. It is very important that there be a requirement, in the planning and approval process, for the benefits to be derived from each project to be clearly defined and measureable. Also, a formal requirement should be established for reporting on the realization of benefits. Such requirements would represent key ingredients in the accountability and management processes of this undertaking by government.

2.12 The following matters, reported upon in previous years, are yet to be dealt with by government.

- The applicability of the Government Management Manuals to Provincial public sector entities other than core departments and agencies should be clarified. The starting point for such an initiative would be a clear and concise listing of the basic or fundamental principles to be met when public funds or property are involved.

- Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

2.13 Our recommendations to government from this review are as follows:

> ***2.1*** *We recommend that policies and practices used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government be reviewed.*
>
> ***2.2*** *We recommend that government increase the level of awareness and understanding within and across the Provincial public sector of statutory and policy requirements (and limits) related to the financial management and control of the public purse.*
>
> ***2.3*** *We recommend government move forward with the release of the updated Management Manuals and that the government's financial and accounting policies include appropriate relevant extracts, references or linkages to external authoritative sources (e.g., Acts, Regulations, accounting standards) in order to support broader awareness and understanding of the policies.*
>
> ***2.4*** *We recommend that, if there continues to be a separate restructuring appropriation, accounting responsibility for it be transferred to the Department of Finance's Government Accounting staff, in order to ensure no significant errors or omissions occur, and an adequate management/audit trail is maintained.*
>
> ***2.5*** *We recommend the Department of Finance senior management provide*

necessary direction, guidance and, if necessary, support so that entities covered by the Provincial Finance Act meet the prescribed deadline of June 30th for financial statement reporting on a timely and effective basis.

2.6 *We recommend that the Business Technology Advisory Committee (BTAC) establish a formal policy requiring identification of benefits as part of the planning and approval process for major information technology projects, and requiring reporting of realization of benefits subsequent to implementation. The specific benefits expected to be derived from the deployment of SAP, as well as for any other business solution products that may be implemented, should be appropriately defined in a manner that is clear and measureable as part of the planning and approval process. Further, there should be a formal requirement for reporting the realization of the benefits to BTAC in accordance with the realization time lines set out in the approved plans.*

EDUCATION

HIGHER EDUCATION AND ADULT LEARNING BRANCH

(Pages 38 - 55)

3.1 This Branch of the Department of Education manages diverse programs including adult learning initiatives, private career colleges, rehabilitation training, the student assistance program and apprenticeship training. Higher Education and Adult Learning acts as the liaison between the Department and Regional Library Boards and certifies teachers for the Nova Scotia public school system. The Branch is also responsible for liaison with the Nova Scotia Community College and the Collège de l'Acadie. In addition, this Branch is also responsible for administration of Community College grants and allocation of funds to degree-granting institutions through the Universities Assistance vote.

REPORT OF THE
AUDITOR GENERAL
2002
HIGHLIGHTS

PREFACE

In an attempt to give readers an appreciation of the most significant findings contained in my Annual Report, I publish annually this highlights volume. It provides a brief summary of the results of audit work carried out in 2002.

However I do suggest that those who wish a fuller understanding of any or all of these matters should refer to the full Report. The highlights volume notes the page numbers of the full Report for each of the subjects.

This year we have more clearly set out our recommendations to government in each Chapter. To assist readers we have also included all 90 recommendations in this highlights volume. I hope this is useful.

It is also the intent of myself and my staff to provide our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete Report would be welcomed.

E R Salmon

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
December 6, 2002

3.2 The Province has partnered with the Royal Bank in providing student loans as the Province does not issue the loan directly to the student, but issues a Certificate of Eligibility to the student for presentation to the Royal Bank (the sole lender of student loans). The current legislation does not permit the Department to issue student loans directly. The Province fully guarantees all student loans negotiated from August 1, 2000 onward. This is a major change in the Student Assistance program that has had a significant impact on the financial exposure of the Province relative to student loans.

3.3 The Department has not collected appropriate data or developed an appropriate model to determine the Province's likely exposure for fully guaranteed student loans that may default. At the present time, as was the case in 1997, our audit determined that loan default information supplied from the bank was insufficient to fully meet the Department's needs.

3.4 Students are no longer required to submit copies of tax returns with their student loan applications. The Department did not perform an adequate assessment of the risks associated with moving to less stringent supporting documentation for loan applications prior to making that decision.

3.5 The Department has not established internal processes for formally measuring and reporting on Divisional performance and outcomes to the House of Assembly and the public. Such information would help assess the effectiveness and efficiency of Divisional operations and fulfill the accountability responsibilities of the Department.

3.6 The Private Career Colleges Division is currently not meeting its target of annual inspections of all colleges and also should improve its documentation relating to the monitoring of college financial statements. These improvements would help to protect the interests of students.

3.7 Our recommendations to government from this audit are as follows:

> ***3.1*** *We recommend that the Branch and individual Divisions prepare operational*

plans to provide a clear link between the overall Departmental goals and priorities and the more specific goals, priorities, and activities of the Branch and Divisions. The plans should include measurable performance indicators and targets. The Divisions should each report performance in relation to the plan.

3.2 *We recommend that the Department of Education continue to pursue a Designation Policy for the Student Assistance program to allow for the cessation or restriction of taxpayers' investment when the likelihood of loan repayment is not acceptable.*

3.3 *We recommend that the Department assess its information needs related to historical default rates for student assistance and establish systems and processes to collect this information.*

3.4 *We recommend that the Department improve its electronic edit processes related to interest charges billed by the Bank to the Province for the Student Loan program.*

3.5 *We recommend that the Department accrue, in the Public Accounts of the Province, an estimate of future interest relief claims, based on past experience, in the year in which student loans are issued.*

3.6 *We recommend that the Department perform an analysis of risks affecting the Student Assistance program, and implement appropriate preventive and detective controls. The Department should consider either verifying the income of Student Assistance applicants and supporting persons through electronic comparisons with Canada Customs and Revenue Agency income tax* *data and/or establishing a formal, comprehensive audit regime.*

3.7 *We recommend that the Private Career Colleges Division prepare an annual report on its operations and results for inclusion in the Annual Report of the Department of Education.*

3.8 *We recommend that the Private Career Colleges Division increase the number of annual inspections to comply with its inspection policy, and improve its procedures for documenting reviews of College financial statements.*

REGIONAL SCHOOL BOARDS' PROPERTY SERVICES EXPENDITURES

(Pages 56 - 71)

4.1 Internal Department of Education reports indicate a serious deferred maintenance problem in the Province's public schools. The cost of this deferred maintenance is estimated by the Department of Education to be $500 million. Deferred maintenance can lead to serious issues such as air quality and other environmental problems, and may result in an inability to use the building for educational purposes. Ultimately, deferred maintenance can lead to the need to replace the building.

4.2 The Education Act makes it clear that Regional School Boards are responsible for the day-to-day operations and maintenance of public school buildings. Major renovations and construction of new schools are the responsibility of the Province.

4.3 The current system of funding property services expenditures and major capital construction and renovations does not motivate Regional School Boards to invest in preventive maintenance.

4.4 The Department of Education does not currently have an adequate process in place to monitor Regional School Boards' performance in appropriately maintaining schools.

4.5 Regional School Boards are not currently receiving all the information required to appropriately perform their governance functions in the property services area.

4.6 A comprehensive planning process for property services does not currently exist.

4.7 Systems and controls over property services operations are generally informal and require improvement.

4.8 There is a lack of information available to management to use in the planning, monitoring and assessment of property services operations.

4.9 Our recommendations to government from this audit are as follows:

> ***4.1*** *We recommend that the Department of Education work with Regional School Boards to establish a protocol for reporting on the condition of school buildings.*
>
> ***4.2*** *We recommend that the Department of Education work with Regional School Boards to establish service standards for property services operations and a process for reporting on achievement.*
>
> ***4.3*** *We recommend that the Department of Education develop a process to assess whether Regional School Boards are maintaining schools appropriately. This process should consider compliance with legislation and policies, and due regard for economy and efficiency.*
>
> ***4.4*** *We recommend that Regional School Boards review committee structures to determine whether a separate committee dedicated to property services would enhance governance of the function.*
>
> ***4.5*** *We recommend that Regional School Boards review and document information*

requirements in the property services area to help ensure they are receiving sufficient, appropriate information to properly fulfill their roles and responsibilities under the Education Act.

4.6 *We recommend that a process be established at all Regional School Boards for the development, approval and reporting of annual operational and preventive maintenance plans for property services operations. Assumptions implicit in such plans should be clearly documented.*

4.7 *We recommend that Regional School Boards define performance indicators for the property services function and report on achievement.*

4.8 *We recommend that the Halifax Regional School Board review existing controls over maintenance materials inventory using sound risk management practices, and implement changes as required.*

4.9 *We recommend that the Regional School Boards develop a formal process for the evaluation of performance of property services staff.*

4.10 *We recommend that the Halifax Regional School Board review its current procedures for controlling work orders and staff assignments to ensure they are appropriate and working as designed.*

4.11 *We recommend that the Halifax Regional School Board use its available maintenance management software to track the full costs associated with completion of work orders.*

4.12 *We recommend that the Department of Education and Regional School Boards*

> *investigate implementation of best practices including energy management systems, joint procurement and custodial staffing and scheduling standards.*

ENVIRONMENT AND LABOUR

DRINKING WATER SAFETY SYSTEM

(Pages 72 - 94)

5.1 Responsibility for public drinking water safety is shared. Owners of drinking water supplies are responsible for maintaining the safety of their supplies. The Department of Environment and Labour is responsible for enforcing compliance with water safety laws and regulations. It derives its authority from the Environment Act. However, the Province's responsibility for private drinking water supplies (e.g., wells) does not extend beyond regulating well construction and investigating contamination originating from outside the supply owner's property.

5.2 The Department released its new drinking water strategy in October 2002. The strategy is based on the principles of sustainability and integrated management, and the premise that everyone has a responsibility to maintain and protect the environment. The accompanying multi-year action plan includes activities that address some of the main components in each of the stages of the multiple-barrier approach.

5.3 Standards exist for the construction and operation of public water supplies, the qualifications of public water supply operators, accreditation of laboratories which test water samples, and the construction of wells. There are no standards for the safe collection, transport and discharge of water by tank trucks for domestic consumption, but draft guidelines have been developed and await approval.

5.4 The Department has adopted Health Canada's health-based *Guidelines for Canadian Drinking Water Quality* as the standard for Nova Scotia public drinking water supplies. Provincial Regulations require public water supply owners to regularly monitor and test their supplies. Municipal water supplies are audited by the Department on a regular basis.

5.5 The Department estimates there are approximately 1,800 public drinking water supplies - other than municipal supplies - that require registration and implementation of a water quality monitoring program. The Department originally estimated that it would have all of the public water supplies registered by October 1, 2002. As of November 5, 2002, approximately two years after the regulatory requirement for registration was approved, there were 1,512 supplies registered.

5.6 The Department has inspected a number of registered water supplies because of the presence of contamination and the release of a boil water advisory. However, there have not yet been any audits of registered water supplies because registration is still in progress. We noted insufficient planning relating to the compliance monitoring process for registered water supplies. The Department has not yet determined how it will carry out the audits, including the procedures and forms to be used. It has not prepared an analysis of how audits of registered supplies will be allocated among various government departments and whether there are sufficient resources available to do the work. The Department has not adequately considered how it will ensure other departments' inspectors are providing sufficient compliance monitoring coverage.

5.7 Responsibility for the enforcement of drinking water safety is clearly set out in legislation and regulations, as well as in policy directives and guidelines issued by the Department to staff. Documented roles and responsibilities are consistent with relevant legislation.

5.8 Our recommendations to government from this audit are as follows:

> ***5.1*** *We recommend that the Department develop audit procedures and forms, study resource issues, establish coordination mechanisms and implement quality control standards for the audit of registered water supplies.*

5.2 *We recommend that Department requirements for the documentation and follow up of boil water advisories be complied with.*

5.3 *We recommend that the Department upgrade the reporting function of its environmental registration and approvals system so that it can provide all of the types of information helpful for monitoring enforcement activities.*

WORKERS' COMPENSATION BOARD OF NOVA SCOTIA - GOVERNANCE STRUCTURE AND PROCESSES

(Pages 95 - 130)

6.1 On November 20, 2001 Treasury and Policy Board requested the Auditor General to conduct an audit of the Workers' Compensation Board (WCB). The Auditor General was asked to consult with the Minister of Environment and Labour on the scope and timing of the audit and to provide the audit results to the Minister. Upon consulting with the Minister, we undertook an examination of the governance processes of the Workers' Compensation Board. The audit was concluded in June 2002 and reported to the Minister and copied to the Workers' Compensation Board. The full report is reproduced on page 96 of the Report of the Auditor General.

6.2 We found that the Workers' Compensation Board of Nova Scotia has a formal governance function which plays an active role in directing the organization's operations.

6.3 There is appropriate attention to the development of knowledge and skills among Board members and there appears to be good commitment by members to the work of the Board. More attention needs to be given to appointment and remuneration of Board members and evaluation of the effectiveness of the Board in fulfilling its governance responsibilities.

6.4 Board members have a good understanding of their purpose and the interests they serve. However, there needs to be more attention given to defining the governance practices the Board wishes to follow.

6.5 The Board is involved in developing objectives and strategies for the WCB. However, there are several groups involved in the workers' compensation system in addition to the WCB and we see a need for planning and coordination for the whole system.

6.6 Board members receive a large amount of performance and other information to help them in their deliberations, and there are audit functions to provide assurance on information received. However, there is a need to better define the exact types, extent and form of information directors receive from management, and to improve monitoring of the internal audit function.

6.7 The Board of Directors has practices to promote effectiveness in directing the business of the WCB, and commits reasonable amounts of time to this responsibility. There is room for improvement in the documenting of Board and committee meetings and the formalizing of the role, responsibilities and employment terms of the CEO.

6.8 The Board fulfils its accountability responsibilities through the provision of comprehensive reports to its stakeholders. We recommended more attention be given to governance matters and performance targets and accomplishments in the WCB's annual report.

FINANCE

NOVA SCOTIA PUBLIC SERVICE LONG TERM DISABILITY PLAN TRUST FUND

(Pages 131 - 146)

7.1 The Nova Scotia Public Service Long Term Disability (LTD) Plan Trust Fund was established in 1985. The terms and conditions under which the Plan is administered are detailed in a Trust Agreement between the Nova Scotia Government and General Employees' Union (NSGEU), the Province, and the Trustees. The Union and the Province are known collectively as the Plan sponsors.

7.2 The N.S. LTD Plan Trust Fund has, and will continue to face, significant challenges including reducing its unfunded liability. For too long, the declining financial position of the Plan was not addressed, and one can only conclude that the overall governance and accountability functions in the past failed to protect the interest of the beneficiaries on a timely basis.

7.3 The existing governance arrangements for the Plan include, by design, conflicting interests. The members of the Board of Trustees share the fiduciary responsibilities for the Plan with the sponsors. However, only the Plan sponsors have the authority for decisions most relevant to the finances and funding of the Plan. Historically, it has taken the Trustees and sponsors too long to make decisions and take action on matters with significant financial or funding consequences. As a result, current contributors to the Plan, including the public purse, are now - and will be for some time - paying increased premiums to offset the poor performance of the Fund in the past.

7.4 Recent changes to the Plan, which are aimed toward a fully-funded position in 15 years, are a significant step in maintaining a viable Fund. However, leave management policies and procedures within the government and its related entities require review in an effort to control the rate of claims incidence for the Plan.

7.5 In order to attract and retain qualified employees at all levels, an organization like the government of Nova Scotia needs to offer a reasonably comprehensive suite of benefits in addition to basic salaries and wages. Access to a reasonably priced and reliable disability benefit is one element of a comprehensive benefits program. The government's existing program offered through the N.S. LTD Plan Trust Fund has been and is still at significant risk and must be monitored closely. The Board of Trustees noted in its response to the Chapter that they have taken, or are planning to take, action toward implementing the recommendations we have made.

7.6 After changes to the Plan implemented in May 2002, the unfunded liability for the N.S. Long Term Disability Plan Trust Fund is estimated to be $38.9

million at June 1, 2002. The impact of recent Plan changes designed to reduce this deficit over a 15-year period needs to be managed and closely monitored to ensure effectiveness. The Board of Trustees needs to develop a plan to accomplish this.

7.7 We commend the Board in its efforts to include performance evaluation in its proposed service contract for claims administration. This contract is currently under negotiation.

7.8 An annual report is prepared for the Plan as required by the Trust Agreement.

7.9 Our recommendations to government from this audit are as follows:

> *7.1 We recommend that funding strategy benchmarks to be established by the Trustees be included in a plan to monitor the impact of the recent Plan changes.*
>
> *7.2 We strongly recommend that the effectiveness of current short-term illness policies and practices, and their impact on LTD claims, be examined by the Public Service Commission. Further, there is a need to integrate and coordinate aspects of these benefit programs to better facilitate back-to-work objectives.*
>
> *7.3 We recommend that an overall review of the governance structure and arrangements for the Plan be undertaken. This review should include a discussion of alternatives to the present arrangements to ensure the resulting Board structure addresses the concerns expressed by the Trustees surrounding fiduciary responsibility to the beneficiaries of the Plan, i.e., current contributors and claimants.*
>
> *7.4 We recommend that future annual reports be prepared on a timely basis and clearly indicate the impact the recent changes have had in addressing the unfunded liability of the Plan.*

7.5 *We recommend that the Board develop a schedule for the periodic review of benefit recipients' files (likely on a sample basis) as part of the overall evaluation of the claims administration function.*

7.6 *We recommend that the Trustees perform an analysis to determine whether services procured from external service providers result in due regard for economy and efficiency. If it is determined that these arrangements continue to be sole-sourced, written documentation justifying this decision should be noted in the Board minutes.*

HEALTH

ACCOUNTABILITY OF DISTRICT HEALTH AUTHORITIES

(Pages 147 - 158)

8.1 The Health Authorities Act includes provisions that establish a strong accountability structure between the Department of Health (DOH) and the District Health Authorities (DHAs). Although some of these requirements are already in place, additional work is needed to enforce all provisions of the Act and ensure the DHAs comply with legislation and are accountable to DOH.

8.2 The Health Authorities Act requires Executive Council approval of DHA Business Plans. The Department of Health submits detailed information on DHAs' planned initiatives to Treasury and Policy Board for discussion as part of the budget approval process. DHA funding is approved and documented. We believe that accountability would be improved if DHA Business Plans were submitted to Executive Council as provided in the Act, and Executive Council formally approved, with documentation, DHAs' planned initiatives in addition to the funding approval. This would help to clarify the government's performance expectations for the DHAs.

8.3 The new Database Management Information System has been a significant improvement in the Department's ability to obtain and use relevant information from the DHAs.

8.4 The Nova Scotia Health Information System(NShIS) will provide timely health service information through a centralized computer system database. This project is a very significant undertaking by the Province and is scheduled for completion by the end of 2004. The most recent forecast of project costs for NShIS is $57 million. The steering committee has directed the project manager to reconsider the cost forecast.

8.5 Our recommendations to government from this audit are as follows:

> ***8.1*** *We recommend that DOH establish a central file for each DHA. This file should contain all correspondence between the Department and the DHA as well as any documents required by legislation.*
>
> ***8.2*** *We recommend that DOH continue to develop a framework for performance reporting by DHAs. This should include measuring common performance indicators against pre-established benchmarks.*
>
> ***8.3*** *We recommend that the Department submit DHA Business Plans to Executive Council for approval as required by the Health Authorities Act.*
>
> ***8.4*** *We recommend that DHAs submit annual reports to DOH by September 1 as required by the Act. We also recommend that DOH follow up on a timely basis in those cases where the annual report and other required items are not received by due dates.*
>
> ***8.5*** *We recommend that the Department of Health establish accounting policies and*

give more direction to the District Health Authorities in this area.

8.6 *We recommend that DOH review the systems and controls over the collection of statistical data and consider whether additional guidance and controls are necessary to ensure the data is accurate and comparable.*

8.7 *We recommend that management establish a project plan and proceed with development of a funding formula to rationalize funding allocations to DHAs.*

PROCUREMENT

(Pages 159 - 168)

9.1 During the year, we performed an audit of the Department of Transportation and Public Works Procurement Branch (Chapter 14). During that audit we found indications of problems with procurement practices at the department level. We decided to audit the Department of Health, the largest government department, to allow us to gain a better understanding of procurement practices at the department level.

9.2 We found several instances where the Department of Health was not compliant with the requirements of the Provincial Procurement Policy or the Department's internal policies.

9.3 In our detailed testing of procurement transactions, we found that a number of items in our sample were neither tendered nor appropriately exempted under the alternative procurement practices section of the Procurement Policy.

9.4 Policies require that purchase orders be approved at the time of procurement to provide proper approval of the transaction and the vendor's price. We found that purchase orders are being initiated after the date of purchase rather than before.

9.5 The Department has not established processes to ensure all alternative procurement transactions are properly approved by the Deputy Minister, documented and recorded in the Province's Corporate Financial Management System, and reported to the Minister of Transportation and Public Works on a timely basis. We found that the report to the Minister of Transportation and Public Works was incomplete and excluded several items we examined which followed alternative procurement practices at the Department of Health.

9.6 Our recommendations to government from this audit are as follows:

> ***9.1*** *We recommend that the Department of Health complete its reorganization of the procurement function.*
>
> ***9.2*** *We recommend that the Department of Health issue appropriate purchase orders at the time goods and services are ordered. The purchase orders should be properly approved and issued at the time the order is placed.*
>
> ***9.3*** *We recommend that the Department of Health ensure that exemptions under Section 8 of the Procurement Policy (i.e., Alternative Procurements) are appropriately approved and documented on an Alternative Procurement Practices Report form prior to placement of the order for goods or services. The completed forms should be submitted to the Department of Transportation and Public Works.*
>
> ***9.4*** *We recommend that the Department of Health regularly receive a copy of the report prepared by the Procurement Branch of the Department of Transportation and Public Works for the Minister. The Department of Health should review the report for completeness and accuracy.*
>
> ***9.5*** *We recommend that the Procurement Branch and/or Corporate Internal Audit perform periodic audits of exemptions*

under Section 8 of the Procurement Policy (Alternative Procurement transactions) at the Department of Health to assist the Department in achieving compliance with the Procurement Policy and to assist the Department of Transportation and Public Works in preparing complete and accurate reports.

HOME CARE NOVA SCOTIA

(Pages 169 - 184)

10.1 Home Care Nova Scotia's (HCNS) costs have increased dramatically over the past five years. To understand these cost increases, it is important for DOH to monitor costs and develop formal explanations for statistical and financial variances from prior year and current year expectations.

10.2 The Department is conducting some audits of service provider agencies but the target of auditing each agency annually is not being met.

10.3 The contract rates currently being paid to the VON for nursing services are based on 1996 levels and have been recognized by Department management to be insufficient. Year-end reconciliations to adjust funding to the VON's actual costs add a level of complexity to the funding arrangement that could be avoided. The Department should establish an updated rate for nursing services which would facilitate the budgeting and forecasting of these costs.

10.4 The Department of Health has not used a competitive procurement process to acquire nursing and home support services for this program. Although the Deputy Minister has the authority to approve alternative procurement processes under the Government Procurement Policy, an exemption has not been documented and reported as required.

10.5 The Department attempted to rationalize home support agency funding with the development of new funding guidelines for 2001-02. These new funding guidelines are a significant step forward in attempting to provide funding on a consistent basis for all agencies.

10.6 Our recommendations to government from this audit are as follows:

> ***10.1*** *We recommend that the Department of Health prepare strategic and operational plans for Home Care Nova Scotia to ensure a common understanding of future direction, and to serve as a guide for HCNS management.*
>
> ***10.2*** *We recommend that the Department of Health review the current process for approving payment of invoices for nursing services. The approval process should ensure that all services paid were authorized by Care Coordinators, and all information necessary to complete the verification should be available on a timely basis.*
>
> ***10.3*** *We recommend that the Department of Health prepare comparisons of Home Care Nova Scotia financial results and performance information to expectations, standards, and prior year figures for the program as a whole, and also among regions. Any resulting variances should be investigated and explained to ensure that program costs are properly understood and managed.*
>
> ***10.4*** *We recommend that the Department of Health, in conjunction with implementation of its new home support agency funding guidelines, review controls over funding to home support agencies. The controls should be sufficient to ensure that payments are made only for authorized services, and that any deficits funded are not the result of poor management practices or services unrelated to HCNS.*
>
> ***10.5*** *We recommend that the Department of Health review the arrangements for acquisition of nursing and home support services for Home Care Nova Scotia. The*

Department should comply with the Government Procurement Policy and either subject these services to a competitive process, or seek the required approval for an exemption. The Department should also determine whether future contracts should be Province-wide or whether each District Health Authority should have responsibility for its own arrangement. Contracts should include clearly-defined performance expectations and require reporting of achievement.

10.6 *We recommend that the Department of Health assess its objectives for agency audits, the associated risks, and resources available. The Department of Health should develop and implement a plan for agency audits.*

10.7 *We recommend that the Department of Health include client fees and collection practices in the scope of its agency audits. We also recommend that the Department perform regular comparisons of the full costs of home support and oxygen services to the fee schedule to ensure that the charge is appropriate.*

NOVA SCOTIA HEALTH RESEARCH FOUNDATION
(Pages 185 - 198)

11.1 The Nova Scotia Health Research Act received Royal Assent on December 3, 1998 and was proclaimed in January 2000. Since the Foundation began operations, it has conducted two grant competitions resulting in awards of more than $9 million. The Foundation receives funding to pay the grants from the Department of Health.

11.2 The Foundation's review and approval of applications is based on established criteria and a peer review process. The Peer Review Committee is comprised of individuals possessing the necessary skills and experience.

11.3 Our audit testing revealed that grant payments to sponsoring institutions in the first two competitions did not require ethical approval by a duly-constituted institutional research ethics committee prior to release of funds to the institution. The Foundation has modified the funding requirements to include ethical approval prior to release of funds to the administering institution.

11.4 The Foundation requires two signatures on cheques in amounts greater than $50,000, but only one signature for lesser amounts. We believe that two signatures should be required for all cheques to increase control over disbursements.

11.5 During the 2001-02 Estimates process, the Department of Health requested approval from central government of a $5 million budget for the 2001-02 grant to the Foundation. This amount was based on the Foundation's submission to the Department. The government only approved $2.5 million which was the same as the budget approval for the prior year. For two consecutive years (2000-01 and 2001-02), government included only $2.5 million for the grant to NSHRF in the Estimates, but the actual grant was $5 million each year.

11.6 Our recommendations to government from this audit are as follows:

> ***11.1*** *We recommend that the Foundation continue its efforts to implement a strategic planning initiative, and submit a three-year plan as required by the Act. The Foundation should report its performance in achieving plans and targets including a comparison of actual to budgeted financial results and reporting of program performance.*
>
> ***11.2*** *We recommend that, for all grants awarded by the Foundation, there be a formal agreement signed by the Foundation, the sponsor and the grantee, and that a copy be maintained by the Foundation. The agreement should set out the payment terms and the sponsors (institutions) should sign that they will*

comply with established funding requirements. In addition, the Foundation should adopt procedures to verify compliance.

11.3 *We recommend that two signatures be required for all cheques.*

11.4 *We recommend that the Foundation improve its monitoring of grant recipients by requiring the sponsoring institutions' finance departments to submit annual financial reports of grant expenditures.*

11.5 *We recommend that the Board approve an investment policy to provide guidance for staff and professional investment advisors when investing Foundation funds.*

11.6 *We recommend that the government appropriately budget the grant to the Nova Scotia Health Research Foundation based on operational plans, legislative and other commitments and historical experience, and that the grant be disbursed on a basis which matches the cash flow needs of the Foundation.*

11.7 *We recommend that the Nova Scotia Health Research Foundation provide a Statement of Revenues and Expenditures for the Restricted Fund in its financial statements.*

AUDIT OF PERFORMANCE INDICATORS

(Pages 199 - 206)

12.1 In September 2000, the First Ministers agreed to *"provide comprehensive and regular public reporting by each government on the health programs and services they deliver, on health system performance and on progress towards the priorities set forth...; and collaborate on the development of a comprehensive framework using jointly agreed comparable indicators such that each government will begin reporting by*

September, 2002." (First Ministers' Meeting Communiqué on Health, September 11, 2000)

12.2 In addition, they agreed to *"...allow each government to determine appropriate third party verification for itself to certify and analyse this information for the benefit of Canadians."*

12.3 On June 26, 2001 the Deputy Minister of Health requested the Auditor General to provide the required third party verification for the report, and we accepted the engagement.

12.4 Over the course of the two-year period between the First Ministers' Meeting and the tabling of the final report, the Department of Health worked with its counterparts in other jurisdictions through a sub-committee of the Conference of Deputy Ministers of Health. A framework of 67 indicators in 14 areas was approved by the Conference of Deputy Ministers.

12.5 We were able to give an unqualified audit opinion on all but 18 of the indicators reported by the Department of Health on September 30, 2002.

12.6 This is not the first time that Nova Scotia has reported health system data to the public. However, it is the first cooperative effort between Federal, provincial and territorial governments to report to their own citizens on health system performance using the same set of comparable indicators. This new process will improve Nova Scotia's ability to gather useful health care data and report health system performance to its residents along with comparisons to other provinces and territories. We are encouraged by the work undertaken by the Nova Scotia Department of Health in the preparation of *Reporting to Nova Scotians on Comparable Health and Health System Indicators.*

12.7 In previous Reports of the Auditor General, we have commented on the need for improved health information systems. The Department of Health is currently investing an estimated $57 million in a new Hospital Information System to satisfy the need for timely and relevant clinical and management information for decision-making.

12.8 New systems help to meet the need for quality information, but we also believe that the user needs assurance on the quality of the data generated by such systems. Audits provide the needed assurance. The role of audit is well understood in the provision of financial information, but is just beginning to be recognized in the provision of non-financial information. We encourage government to look at the 2002 health indicators report as an example of the added assurance that an audit can provide on non-financial information in all sectors.

SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS

FUEL AND TOBACCO TAX

(Pages 207 - 220)

13.1 The Department of Service Nova Scotia and Municipal Relations is responsible for administering the Revenue Act. Under the Act, the Department administers taxes on tobacco products, gasoline and diesel oil (fuel), and the private purchase of designated tangible personal property (e.g., motor vehicles, boats and aircraft). Total revenue received under these three taxes for the year ended March 31, 2002 was $327.4 million.

13.2 The Department has a broad mandate under the Revenue Act and Regulations. We did not observe any unmet legislative requirements.

13.3 Control over the processing of tax payments needs strengthening. We observed deficiencies relating to segregation of duties, recording and security of money received, and reconciliations of deposits to accounting records.

13.4 We noted tax returns with incomplete or missing supporting schedules and insufficient details on the calculation of taxes owing, and returns regularly being received after due dates.

13.5 As a result of a 1991 Provincial Court decision, gasoline purchased on a reserve by a status Indian is exempt from Provincial taxes. The government established a process to refund the fuel tax previously paid by band members who purchased fuel from on-reserve gasoline retailers. In July 2002 government reached a tentative agreement with the Eskasoni band to refund band members $16 million for fuel taxes paid (including interest). The government is negotiating agreements with the remaining 12 bands. The total cost of this rebate program is estimated to be $19.6 million.

13.6 There are serious deficiencies in the planning, monitoring and documentation of tax audits and inspections, and insufficient auditing of oil company head offices, gasoline retailers and tobacco wholesalers.

13.7 There are reasonable systems and good documentation to support measures taken to pursue infractions of law discovered by the Department.

13.8 Our recommendations to government from this audit are as follows:

> ***13.1*** *We recommend the Department implement an appropriate system of internal control over cash receipts.*
>
> ***13.2*** *We recommend that the examination of monthly returns from tobacco wholesalers and fuel oil companies be appropriately documented and reviewed, and standards be developed to specify the frequency and nature of the procedures to be performed.*
>
> ***13.3*** *We recommend that the Department ensure returns and tax payments are processed on a timely basis and that all information required on a return is received.*
>
> ***13.4*** *We recommend tax-exempt fuel sales statements be reviewed monthly, at least on a sample basis. This process should include checking to see that tax-exempt fuel is only being sold to companies and individuals who have consumer exemption permits.*
>
> ***13.5*** *We recommend that the Department implement a formal, comprehensive*

system for audit/inspection planning, management and quality control.

13.6 *We recommend that audits of oil company head offices, gasoline retailers and tobacco wholesalers be performed. Staff should be provided with the training necessary to audit oil company head offices and gasoline retailers, and/or the expertise should be obtained from outside the Department.*

13.7 *We recommend that information system improvements be implemented to facilitate a more effective and efficient inspection and audit process.*

13.8 *We recommend a comprehensive review of the staffing, organization and work responsibilities of the Department as they relate to tobacco and fuel taxes, concurrent with the above-recommended information system improvements, to ensure all tax-related responsibilities are fulfilled in the most efficient and effective manner.*

13.9 *We recommend that better documentation be prepared to support the procedures performed and conclusions drawn from audits and inspections.*

13.10 *We recommend that the Department establish risk-based criteria for determining which companies should provide surety bonds, and ensure it has up-to-date surety bonds from companies required to provide them. The Department should also ensure that licences or permits required by a client from another Department are in place.*

TRANSPORTATION AND PUBLIC WORKS

PROCUREMENT BRANCH

(Pages 221 - 244)

14.1 The Department of Transportation and Public Works is responsible for administering the Government Purchases Act and the Government Procurement Policy. Within the Department, the responsibility rests with the Procurement Branch, a section of the Department's Government Services Division. The Department assumed responsibility for government procurement in January 2001 upon the transfer of the Procurement Branch from the Department of Finance.

14.2 The Government Procurement Policy allows government organizations to purchase goods with a value up to $5,000 without public tender if they obtain at least three quotations. Under Section 8 of the Government Purchases Act, the Procurement Branch must tender for the purchase of goods over $1,000. An amendment to the Act has been drafted to increase the limit to $5,000, but the new legislation has not been presented to the House of Assembly yet.

14.3 The Procurement Branch has taken steps to promote a clear understanding of procurement goals and processes.

14.4 A policy statement was drafted to guide government organizations in evaluating and conducting public-private partnership procurement. However, the policy statement was never approved by Executive Council.

14.5 Purchase orders for procurements by government departments and agencies over $25,000 must be approved and issued by the Procurement Branch. Procurement staff can put a transaction on hold if there are questions as to its compliance with legislation and policy. After a tender is conducted and bids are evaluated by the client organization, the organization must provide an explanation to the Procurement Branch if a bid other than the lowest priced one is accepted.

14.6 The Government Procurement Policy applies to all Provincial government entities, including departments, agencies, boards, commissions, crown corporations, academic institutions, regional school boards and district health authorities. However, there is little external monitoring of the procurement activities of crown corporations, academic institutions, regional school boards and district health authorities. Similarly, there is little external monitoring of these entities to ensure compliance with interprovincial procurement agreements.

14.7 Government organizations sometimes bypass the procurement process and Procurement Branch involvement by processing procurement transactions through the accounts payable module, rather than the procurement module, of the government's Corporate Financial Management System. Procurement Branch staff monitor transactions processed through the accounts payable module for improper recording of purchases, and questionable transactions are followed up.

14.8 Some policies relating to alternative procurement (e.g., sole-source purchasing) are not always followed by government organizations. Alternative procurement is being conducted without consultation or agreement of Procurement Branch staff. Not all alternative procurement is reported to the Procurement Branch, as required by policy.

14.9 We found little review and challenge of alternative procurement transactions by Procurement Branch staff as long as the transaction was approved by the head of the client organization. The Government Procurement Policy does not specifically state that the Procurement Branch is responsible for controlling client organization procurement practices, and does not specify any method of resolving the issue if Procurement Branch staff challenge a decision approved by the head of a client organization. There is no requirement to report alternative procurement transactions, or even differences of opinion, to a central government organization such as Treasury and Policy Board.

14.10 Our recommendations to government from this audit are as follows:

> ***14.1*** *We recommend that government review its practices for ensuring compliance with*

procurement policy and agreements. We believe either the role of the Procurement Branch needs to be expanded and its practices strengthened, or alternative measures need to be developed to hold all government entities individually accountable for procurement activity.

14.2 *We recommend more guidelines be developed and communicated, and practices be strengthened, for the documentation and recording of procurement transactions.*

14.3 *We recommend that government comply with policies and guidelines for alternative procurement, and that transactions be better documented. We believe there needs to be a better system to address known non-compliance with alternative procurement policies and differences of opinion between the Procurement Branch and its client organizations.*

14.4 *We recommend that, in order to maintain a high level of confidence in the procurement process and ensure all procurement is carried out in an open and fair manner, there be some level of reporting to the House of Assembly and other stakeholders on procurement.*

14.5 *We recommend continued development of performance measures, collection of supporting information and annual reporting on performance. Where possible, performance reporting should include quantitative measures compared to predetermined targets, with explanations for significant variances.*

CROWN AGENCIES AND CORPORATIONS

HIGHWAY 104 WESTERN ALIGNMENT CORPORATION

(Pages 246 - 260)

15.1 Highway 104 Western Alignment Corporation was established by Statute in 1995 and is responsible for the financing, design, construction, operation and maintenance of the Highway 104 Western Alignment. The Western Alignment is a 45-kilometre, four-lane, divided, toll highway linking Masstown and Thomson Station in northern Nova Scotia.

15.2 The Corporation reports to the Department of Transportation and Public Works (TPW) on a timely basis, but TPW does not provide accountability information on the Corporation to the House of Assembly. No corporate annual reports or business plans have been tabled in the House of Assembly.

15.3 The Corporation does not have documented, defined performance measures that are formally monitored and reported.

15.4 There are inconsistencies between the Highway 104 Western Alignment Act and subsequent Financial Measures legislation which have not been fully addressed by government.

15.5 A primary objective for building the $124.6 million Highway 104 Western Alignment was to improve traveler safety. However, neither the Corporation nor the government have formally studied and reported deaths and accidents related to the new highway.

15.6 The Corporation does not prepare a comprehensive business plan which includes goals, outcomes and performance measures.

15.7 The Corporation is complying with its legislation and regulations. At the time of our audit, the Corporation was not complying with two requirements of 22 agreements to which it is a signatory.

15.8 The Corporation has appropriate operating and capital budgetary processes. However, it does not perform regular cash flow projections as part of its planning process.

15.9 The Department of Transportation and Public Works provides annual highway maintenance services and technical expertise for major highway repairs to the Corporation, but does not recover the full cost of the services.

15.10 Our recommendations to government from this audit are as follows:

> ***15.1*** *We recommend that the Corporation's accountability requirements be broader, and included in legislation so they may only be changed by the House of Assembly, to which we believe the Corporation is ultimately accountable.*
>
> ***15.2*** *We recommend ongoing monitoring of all agreements and indentures be undertaken to ensure compliance with all corporate requirements.*
>
> ***15.3*** *We recommend that accident and death statistics be monitored by TPW or the Corporation and reported in the Corporation's annual report, along with any available explanations for trends or variances from expectations.*
>
> ***15.4*** *We recommend that a more formal, comprehensive business plan be prepared each year and used to enhance the Corporation's planning and budgeting process.*
>
> ***15.5*** *We recommend the Corporation prepare a three to five-year cash flow projection based on management's best estimates of future operating results, debt repayment, road repairs, reserve funding, and other significant sources and uses of cash.*
>
> ***15.6*** *We recommend that cash flow projections be prepared regularly to identify changes (e.g., predetermined toll increases, forecasted debt repayments) which may*

cause potential cash shortages or affect the Corporation's ability to fund reserve accounts.

15.7 We recommend that the Corporation determine whether it is more beneficial to hold excess cash or repay outstanding debt. The analysis should include reviewing cash flow projections to ensure the Corporation will have sufficient cash to meet all of its future obligations.

15.8 We recommend that indirect and other costs associated with the annual maintenance and major repair services provided to the Corporation be identified, accumulated and monitored. TPW should consider whether future agreements with the Corporation provide for full cost recovery to the Department.

TRADE CENTRE LIMITED

(Pages 261 - 273)

16.1 Trade Centre Limited (TCL) was created in November 1981 by Order in Council. The Province of Nova Scotia is the beneficial owner of all shares of the Corporation which reports to the Minister of the Office of Economic Development.

16.2 Trade Centre Limited has been in operation for more than twenty years. It represents a significant and important infrastructure investment for the Province and the region.

16.3 Organizations such as TCL typically require periodic government support in order to maintain their operations and capital assets. TCL has not had to receive direct financial support from the Province for its operations since the fiscal year ended March 31, 1995. However, the facilities are more than twenty years old and there is currently no plan in place to address the long-term facility requirements of TCL. The government and TCL need to address this challenge to ensure TCL's ability to operate into the future.

16.4 Trade Centre Limited's formal governance and accountability arrangements need to be modernized. In our view, this should include defining comprehensive corporate bylaws and terms of reference for Board committees. We were advised that the TCL Board recently initiated a process aimed at updating and improving the governance and accountability arrangements for the Corporation.

16.5 TCL has well-established and understood internal business and communication processes which include monthly internal financial reporting. Management has initiated a business process and organizational review using external consulting resources which is intended to identify opportunities for improvement. TCL has established performance indicators and targets for its business divisions and for the Corporation but has yet to initiate formal external reporting against these indicators and targets.

16.6 TCL entered into a contract with the Canadian Hockey Association (CHA) in which TCL guaranteed CHA a minimum profit of $3 million on the World Junior Hockey Championships. The Provincial Finance Act requires Executive Council authorization for such guarantees. The required authorization was not obtained. The Corporation indicated these statutory requirements were not communicated to TCL and that providing event performance guarantees is in the normal course of business.

16.7 TCL's senior management were paid annual bonuses for the years ended March 31, 1997 to March 31, 2001 based on the recommendation of the CEO. Bonus eligibility and amounts were determined by the CEO. In the earlier years, bonuses were approved by the full Board and in later years by the Executive Committee of the Board.

16.8 Our recommendations to government from this review are as follows:

> ***16.1*** *We recommend Trade Centre Limited's formal governance and accountability arrangements be modernized.*
>
> ***16.2*** *We recommend Trade Centre Limited and the government reconcile the*

Corporation's need to issue event performance guarantees with the requirements of the Provincial Finance Act for prior Executive Council approval.

16.3 *We recommend government, through the Department of Finance or Treasury and Policy Board, establish a communication strategy or process to ensure relevant statutory, policy or other requirements and initiatives are effectively communicated on a timely basis to all entities, their governing bodies and senior management included in the Government Reporting Entity. We also recommend TCL put in place a process to ensure the Corporation is aware of and in compliance with statutory or other requirements affecting its operations.*

16.4 *We recommend the agreement with Halifax Regional Municipality for the management of the Halifax Metro Centre be reviewed to ensure it appropriately reflects current circumstances, including cost allocation or sharing arrangements, and properly indemnifies TCL for contracts and operational risks related to the Metro Centre.*

16.5 *We recommend Trade Centre Limited initiate formal annual reporting of performance against indicators and targets.*

16.6 *We recommend Trade Centre Limited establish a more formal and documented process for determining eligibility and amounts of annual bonuses for senior management.*

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

(Pages 274 - 277)

17.1 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies where the financial statements are reported on by private sector auditors. This Chapter of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

17.2 As part of the wrap-up of the Nova Scotia Business Development Corporation (NSBDC) (which had been assigned responsibility in the early 1990's for the assistance accounts provided through the Industrial Expansion Fund), various roles and responsibilities for the Industrial Expansion Fund (IEF) and its accounts became problematic. The new Nova Scotia Business Incorporated (NSBI) was designated to 'administer' the IEF accounts. However, 'administer' was not defined and NSBI's interpretation of the scope of its roles and responsibilities for the IEF and its accounts was significantly less than what had previously been done by NSBDC.

17.3 This situation resulted in significant delay in the finalization of the audit of the IEF's March 31, 2002 financial statements. More importantly, without full and appropriate resolution, the roles and responsibilities for the IEF will be fragmented between NSBI and the Office of Economic Development.

17.4 Amendments need to be made to the Members' Retiring Allowances Act to allow for the issuance of a formal waiver from the Canada Customs and Revenue Agency with regard to member contribution limits. A separate account should be formed for the Members' Supplementary Retiring Allowances Plan to allow for the segregation of contributions, interest, refunds and allowances from the Members' Retiring Allowances Plan.

OTHER AUDIT OBSERVATIONS

ADDITIONAL APPROPRIATIONS

(Pages 280 - 283)

18.1 Additional appropriations totaling $450.2 million and $183.4 million were approved by Order in Council (OIC) in September 2002 for the years ended March 31, 2001 and March 31, 2000 respectively.

18.2 Additional appropriations required for the year ended March 31, 2002 are yet to be approved by Order in Council. Under Section 28(4) of the Provincial Finance Act, as amended May 30, 2002, Order in Council approval now needs to be obtained *"no later than ninety days after tabling of the Public Accounts"*.

18.3 There were no special warrants approved for the 2001-02 fiscal year.

18.4 Current legislation and administrative practices impair the effectiveness of the House of Assembly's control over the spending of public funds. The practice of obtaining after-the-fact approval for additional spending authority does not constitute or support *effective control.*

18.5 Recent statutory changes establishing a deadline for obtaining additional appropriations have resolved an administrative challenge of government regarding compliance. However, parliamentary control of and accountability for government's spending are at risk of being further impaired because the statutory provisions do not require approval prior to spending.

CASH AND OTHER LOSSES

(Pages 284 - 286)

19.1 The losses reported to us for the year ended March 31, 2002 totalled $215,562; consisting of cash losses of $24,267, property losses estimated at $287,869 and recoveries of $96,574. In addition, Regional School Boards reported losses of $704,275 and recoveries of $19,903 for the year.

19.2 Not all departments and crown agencies comply, on a timely basis, with the loss reporting requirements of the Management Manual.

ova Scotia

REPORT OF THE

AUDITOR GENERAL

2002

103-02167/

Nova Scotia

REPORT OF THE

AUDITOR GENERAL

2002

Honourable Murray Scott
Speaker
House of Assembly

Sir:

I have the honour to submit herewith my Report to the House of Assembly for the year ended March 31, 2002, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

E R Salmon

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
December 6, 2002

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INTRODUCTION

1.

OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 I am pleased to submit my Annual Report to the House of Assembly. It outlines the results of audit work and other activities carried out during 2002. It is my continuing objective to provide information for use by members of the House of Assembly in carrying out their responsibility to hold the government to account for the management of public funds.

1.2 In performing our work we adhere to the standards established and promulgated by the Canadian Institute of Chartered Accountants. These are the professional standards adhered to by public accountants and legislative auditors when performing assurance work.

1.3 For the first time I will also be presenting a separate report which will describe the role of the Office, lay out our business plan for the year ended March 31, 2004 and report on our performance for 2002. The business plan for 2002-03 was included in the 2001 Annual Report. I will be presenting these in a separate report to highlight the importance I attach to planning and performance reporting and encourage members of the House of Assembly to offer comments and provide advice on our plans and activities.

1.4 I have also made a change in the content of this Annual Report. This year, in most of the chapters, I have included specific recommendations to government that are intended to address weaknesses, deficiencies or issues identified in the course of audits. It is my intention to follow up on these 90 recommendations in three years to determine the extent of action taken.

1.5 The government continues to focus on achieving fiscal stability and appears to be making progress. However, one of the key elements in doing so is sound decision making based on good information. Throughout this Report, my audits identified weaknesses in information reporting within departments and agencies, between organizations and externally to the House of Assembly. I acknowledge that improvements have been made over the last number of years but deficiencies still exist.

AUDIT MANDATE

1.6 In addition to my responsibility to table this Annual Report, the Auditor General Act requires me to provide an opinion to the House of Assembly on the government's financial statements and to have that opinion included in the Public Accounts. My opinion was dated October 18, 2002 and was included in the Public Accounts which are scheduled to be tabled by the Minister of Finance before December 31, 2002.

1.7 I am also required by the Auditor General Act to review the estimates of revenue contained in the Budget Address of the Minister of Finance and to report to the House of Assembly on the reasonableness of the revenue estimates. That report was included in the April 4, 2002 Budget Address.

1.8 The Auditor General Act also permits me to table two additional reports during a year. I will be tabling my business plan and performance report under this provision.

ACCOUNTABILITY INFORMATION AND REPORTING

1.9 Chapter 2 discusses the government's first *Annual Accountability Report* issued in December 2001, the results of our review of the government's 2002-03 Revenue Estimates, the results of our audit of the Province's Summary Consolidated Financial Statements for the year ended March 31, 2002, and comments on the government's progress in implementing the Corporate Financial Management System throughout the broader public sector. We note that government has taken steps to improve the nature and quality of accountability reporting to the House of Assembly and public.

1.10 The chapter includes recommendations in several areas where government needs to improve controls or accountability. For example, central government needs to better communicate statutory and policy requirements to the broader public sector and ensure these are well understood by the entities involved. The accounting and control processes for the $65 million appropriation for restructuring costs need improvement.

1.11 We also note that government's commitment to generally accepted accounting principles (GAAP) may require other changes in accounting policies to comply with future recommendations of the Canadian Institute of Chartered Accountants. We strongly support maintaining compliance with GAAP but note that compliance will continue to challenge the government in achieving its fiscal plans.

EDUCATION - HIGHER EDUCATION AND ADULT LEARNING BRANCH

1.12 Chapter 3 includes the results of an audit of the Higher Education and Adult Learning Branch of the Department of Education which has responsibility for a number of programs including Student Assistance. There have been a number of changes in the Student Assistance program since our last audit including the Province's decision in 2000 to fully guarantee student loans and accept the related liability for future defaults, rather than pay a risk premium to the bank as in the previous arrangement. Since loan repayment depends on future income levels of loan recipients and other factors, there is a need for the Department to gather and analyze historical default rates, employment trends and related information to accurately estimate the liability associated with the program.

1.13 Since we last audited the program, the Department also decided that Student Assistance applicants no longer need to submit income tax returns or other income documentation for themselves, parents or spouses. We believe this decision increased the risk associated with the program and recommend that the Department consider approaches to mitigating the risk, including developing a formalized audit approach or accessing electronic income information from the Canada Customs and Revenue Agency.

EDUCATION - REGIONAL SCHOOL BOARDS' PROPERTY SERVICES EXPENDITURES

1.14 The current system of funding property services expenditures and major capital construction does not motivate Regional School Boards to invest in preventive maintenance of school buildings as noted in Chapter 4. There is also a serious deferred maintenance problem in the schools. Systems and controls in the property services area are generally informal and require improvement to ensure the value from the Province's investment in school buildings is maximized.

ENVIRONMENT AND LABOUR - DRINKING WATER SAFETY SYSTEM

1.15 Chapter 5 indicates that the Department of Environment and Labour has good processes for developing and promulgating standards for safe drinking water and ensuring individuals with responsibilities related to drinking water have appropriate qualifications. The Department has suitable plans for improving its monitoring and auditing of municipal water supplies, but needs to put more effort into planning for the monitoring and auditing of registered water supplies.

WORKERS' COMPENSATION BOARD OF NOVA SCOTIA - GOVERNANCE STRUCTURE AND PROCESSES

1.16 Chapter 6 includes the full text of our report on Governance Structure and Processes at the Workers' Compensation Board. This audit was requested by Treasury and Policy Board and the report was provided to the Minister of Environment and Labour on June 14, 2002.

NOVA SCOTIA PUBLIC SERVICE LONG TERM DISABILITY PLAN TRUST FUND

1.17 Chapter 7 indicates that the unfunded liability for the Trust Fund is estimated to be $38.9 million at June 1, 2002. Recent changes to the Plan, aimed at developing a fully-funded position in 15 years, are a significant step in maintaining a viable Fund but there are other actions which should be taken. Leave management policies and procedures within the government and its related entities relating to short-term illness need to be examined in an effort to control the rate of claims incidence for the Plan.

HEALTH - ACCOUNTABILITY OF DISTRICT HEALTH AUTHORITIES

1.18 The Health Authorities Act includes provisions that establish a strong accountability structure between the Department of Health and the District Health Authorities as indicated in Chapter 8. Although some of these requirements are already in place, additional work is needed to enforce all provisions of the Act. We believe that accountability would be improved if District Health Authority Business Plans were submitted to Executive Council as provided in the Act. Executive Council should formally approve, with documentation, Health Authorities' planned initiatives in addition to funding.

1.19 The Department is investing significant resources in the development of better information systems. We support the Department's efforts to improve information available for decision making. The Nova Scotia Health Information System is a significant undertaking and is scheduled for completion by the end of 2004. The most recent forecast of project costs is $57 million.

HEALTH - PROCUREMENT

1.20 Chapter 9 indicates that we found several instances where the Department of Health was not compliant with the requirements of the Provincial Procurement Policy or the Department's internal policies. We recommend that the Department complete and implement its reorganization of the procurement function and take measures to achieve compliance with the related policies.

HEALTH - HOME CARE NOVA SCOTIA

1.21 Home Care Nova Scotia's costs have increased dramatically over the past five years as indicated in Chapter 10. The majority of home care costs relate to payments made to third-party service providers. Control over program expenditures and quality of care depends to a large degree on the Department's ability to ensure that the service providers are providing services consistent with the Department's requirements at a reasonable cost. We believe the Department needs to make significant improvements in the management of service providers.

NOVA SCOTIA HEALTH RESEARCH FOUNDATION

1.22 Chapter 11 indicates that the Foundation has progressed in all areas since it became operational in January 2000. We made a number of recommendations to assist the Foundation in improving control over its operations.

1.23 We also noted that the government approved grants of $2.5 million to the Foundation in the Estimates for both 2000-01 and 2001-02 but that the actual grant in each of the two years was $5 million. We recommend that the government appropriately budget the grant to the Foundation.

HEALTH - AUDIT OF PERFORMANCE INDICATORS

1.24 Chapter 12 is a discussion of our audit of the Department of Health's September 30, 2002 publication *Reporting to Nova Scotians on Comparable Health and Health System Indicators - Technical Report* which resulted from a September 2000 commitment made by the First Ministers. The publication includes 67 health indicators in 14 areas, and was the first time that we audited a non-financial report of a government department. We believe that the user of accountability reports requires assurance on the quality of the document. Audits provide the needed assurance. The role of audit is well understood in the provision of financial information, but is just beginning to be recognized in the provision of non-financial information. We encourage government to look at the 2002 health indicators report as an example of the added assurance that an audit can provide on non-financial information in all sectors.

SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS - FUEL AND TOBACCO TAX

1.25 Chapter 13 indicates that systems for issuing and monitoring licenses and permits related to fuel and tobacco taxes are adequate. However, the Department has inadequate systems for processing fuel and tobacco tax returns, and for conducting taxation-related audits and inspections. Also, improvements should be made to strengthen collection of past due taxes.

TRANSPORTATION AND PUBLIC WORKS - PROCUREMENT BRANCH

1.26 We observed instances of government organizations not complying with the Government Procurement Policy as noted in Chapter 14. A significant number of government organizations are not externally monitored to ensure they are in compliance with procurement policy and interprovincial procurement agreements. Also, there is little challenge of government agencies using alternative procurement practices, even when procurement practices do not meet the criteria presented in the Government Procurement Policy.

HIGHWAY 104 WESTERN ALIGNMENT CORPORATION

1.27 Chapter 15 notes that the Corporation reports to the Department of Transportation and Public Works on a timely basis, but the Department does not provide accountability information on the Corporation to the House of Assembly. We believe that the Corporation should be accountable to the House and that its accountability requirements should be included in legislation.

TRADE CENTRE LIMITED

1.28 Chapter 16 discusses the results of our review of Trade Centre Limited. We note that Trade Centre was not aware of statutory requirements included in the Provincial Finance Act, including the requirement for Executive Council to approve guarantees, and that there is a need for central government to communicate policy and statutory requirements to such entities. We also note that there is a need for the Board of Directors to formalize the process and criteria relating to eligibility for management bonus payments.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

1.29 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies where the financial statements are reported on by private sector auditors. Chapter 17 includes comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

ADDITIONAL APPROPRIATIONS

1.30 Chapter 18 indicates that additional appropriations totaling $450.2 million and $183.4 million were approved by Order in Council in September 2002 for the years ended March 31, 2001 and March 31, 2000 respectively. Additional appropriations required for the year ended March 31, 2002 are yet to be approved by Order in Council.

1.31 Under Section 28(4) of the Provincial Finance Act, as amended May 30, 2002, Order in Council approval now needs to be obtained *"no later than ninety days after tabling of the Public Accounts"*. These statutory changes establish a deadline for obtaining additional appropriations and resolve an administrative challenge of government regarding compliance. However, parliamentary control of and accountability for government's spending are at risk of being further impaired because the statutory provisions do not require approval prior to spending.

CONCLUDING REMARKS

1.32 I believe that acting on the recommendations contained in this and prior Reports would assist government in achieving its fiscal objectives. Better management and decision making is critical and while I acknowledge the improvements that have been made over the last number of years, better systems and better (not more) information at all levels is necessary.

1.33 Again this year I would like to thank my staff for their efforts and support. It was a busy year and they worked diligently, professionally and enthusiastically in carrying out their projects. Those whom we audit are also professional, cooperative and courteous and I wish to thank them.

GOVERNMENT-WIDE ISSUES

2.

ACCOUNTABILITY INFORMATION AND REPORTING

BACKGROUND

2.1 Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so Members of the Legislative Assembly (MLAs) can hold government accountable. In its simplest terms, accountability means the obligation to answer for an assigned responsibility.

2.2 An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes. Exhibit 2.1 on page 33 provides a relatively simple two-dimensional overview of the key elements of an accountability relationship, including the role the audit function serves within it. This overview or model can be used when considering accountability at various levels within Provincial operations. For example:

- government's accountability to the House of Assembly;
- departments' and Provincial public sector entities' accountability to government;
- deputy head's or board's accountability to a Minister; and
- management's accountability to a deputy head.

2.3 Exhibit 2.2 on page 33 provides an overview of the accountability organization with respect to the Provincial public sector. It is not intended to present all parties or relationships involved, but rather to emphasize the various levels that exist and that accountability to the public is relevant at all levels.

2.4 The purpose of this Chapter is to provide summary comments on the quality of accountability information and reporting to the MLAs, including the Province's financial statements.

RESULTS IN BRIEF

2.5 The following are our principal observations this year.

- As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance is now required by law. The initial reporting on outcomes under this requirement, titled *Annual Accountability Report*, was released December 20, 2001.

  Performance information or reports provided by government to MLAs should be relevant, reliable and understandable. The implementation and evolution of such reporting, and the effective use of the information by government and MLAs for accountability purposes, will require a significant sustained commitment. The *Annual Accountability Report* represents an important step in the accountability reporting process.

- The Auditor General's Report, required under Section 9B of the Auditor General Act, on the 2002-03 revenue estimates was dated March 28, 2002 and tabled in the House on April 4, 2002 along with the Nova Scotia Budget for the fiscal year 2002-03.

  In addition, summary comments and suggestions resulting from our review procedures were communicated to the Department of Finance. We suggested that policies and practices used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government be reviewed.

- The Province's March 31, 2002 summary consolidated financial statements were to be released in December 2002 as part of Volume I of the *Public Accounts*. The Auditor's Report, dated October 18, 2002, on the consolidated financial statements was unqualified.

  Opportunities to improve control and accounting for the government's financial affairs were identified, including the following.

  - The level of awareness and understanding within and across the Provincial public sector of statutory and policy requirements (and limits) related to the financial management and control of the public purse need to be improved.

  - The government's financial and accounting policies should include appropriate relevant extracts, references or linkages to external authoritative sources (e.g., Acts, Regulations, accounting standards) in order to support broader awareness and understanding of the policies.

  - Responsibility for accounting for restructuring costs should be transferred to the Department of Finance's Government Accounting staff, in order to ensure no significant errors or omissions occur, and an adequate management/audit trail is maintained.

  - Direction, guidance and, if necessary, support need to be provided so that entities covered by the Provincial Finance Act meet the prescribed deadline of June 30th for financial statement reporting on a timely and effective basis.

- The deployment of the financial information system SAP R/3 across the Provincial public sector is a major undertaking to be addressed through specific projects over the next several years. It is very important that there be a requirement, in the planning and approval process, for the benefits to be derived from each project to be clearly defined and measureable. Also, a formal requirement should be established for reporting on the realization of benefits. Such requirements would represent key ingredients in the accountability and management processes of this undertaking by government.

- Among matters reported upon in previous years, yet to be dealt with by government, are the following.

  - The applicability of the Management Manuals to Provincial public sector entities other than core departments and agencies should be clarified. The starting point for such an initiative would be a clear and concise listing of the basic or fundamental principles to be met when public funds or property are involved.

- Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

SCOPE OF REVIEW

2.6 This assignment represents an ongoing monitoring, identification, review and consideration of various matters or issues relating to the status of action taken or planned by government to improve the quality of accountability information and reporting to the House of Assembly.

2.7 In addition to considering the status of accountability-related initiatives undertaken by government, we provide commentary on selected matters, including the Province's summary consolidated financial statements.

PRINCIPAL FINDINGS

2.8 Our principal findings and summary comments on general or specific matters relating to the quality of accountability information and reporting are presented under the following headings.

- Accountability Report
- Government's Revenue Estimates
- Province's Summary Consolidated Financial Statements
- Corporate Financial Management Systems
- Other Matters

Accountability Report

2.9 For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there should be a standard framework in place. As a result of June 2000 changes to the Provincial Finance Act, there is now a statutory requirement for government to provide such information and reporting on outcomes to the House.

2.10 The effective implementation and continued evolution of such information and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government. It is important MLAs be provided sufficient, appropriate information on the government's progress towards its targets for program service and delivery levels. How such information or reporting is presented to MLAs, and used by them as part of the parliamentary process to hold government to account, will have a significant impact on its effectiveness.

2.11 The government of Nova Scotia released its first report in response to a new requirement under Section 83 of the Provincial Finance Act. The report, titled *Annual Accountability Report*, was issued on December 20, 2001 and reports performance against the spring 2000 planning document *The Course Ahead for the fiscal year 2000-01 - The Government Business Plan*. Government departments were also required to prepare individual accountability reports for 2000-01, and make them available through the government's website.

2.12 In spring 2002, this Office undertook a review of the preparation of the *Annual Accountability Report* as well as the reports prepared by four departments. The overall objective for this assignment was to assess the nature and extent of the supporting information behind the various representations on results achieved made in the accountability reports. In particular, the reports were assessed against the following criteria.

- There should be a link between the goals noted in the accountability report and the government (or departmental) business plan.
- The government (and departments) should report on the full range of priorities outlined in the business plan.
- There should be support for the results reported in the accountability reports. The support should be organized and available for review.
- The report should explain the degree to which the data supporting assertions is reliable.

2.13 The following observations resulted from this assignment.

- All priorities established by the four departments in their 2000-01 business plans were reported on in their respective accountability reports. Overall government priorities were not as clearly defined in *The Course Ahead* and therefore the link between that document and the *Annual Accountability Report* is not as clear. We noted that the *Annual Accountability Report* included comments on many government activities, not all of which were identified in *The Course Ahead*.
- Guidelines for the preparation of the accountability reports had been provided by Treasury and Policy Board (TPB). These guidelines suggested content for the reports, but did not address the nature and extent of documentation to support the assertions made in the reports. Consequently, documentation to support the reports varied in each of the four departments we selected. Departmental staff noted they were unsure whether internal meeting notes related to the reports should be documented and filed. They were also unclear as to whether statistics and data obtained through departmental information systems should be copied and kept in a file related to these accountability reports. Finally, some of the information in the reports came from staff in each department who had knowledge of a particular program or priority. Again, there was uncertainty as to how much of this knowledge should be documented, and supported.

  We noted that documentation was provided by departments to support many of the assertions in the *Annual Accountability Report* and that this documentation was maintained in a central file.
- The departmental accountability reports we reviewed include an Accountability Statement signed by the respective Minister and Deputy Minister. This statement notes "*The reporting of* [departmental] *outcomes necessarily includes estimates, judgements and opinions by* [departmental] *management.*"

  The *Annual Accountability Report* does not include a statement describing the reliability of the data, but does refer the reader to departmental reports for further information.

2.14 We are aware that accountability reporting in government is still in its early stages, and that guidelines provided by TPB for the preparation of these reports are evolving as well. Management at TPB noted that these guidelines were not meant to be too prescriptive; departments should have a degree of flexibility in describing accomplishments for their program areas.

2.15 Our concern with the guidelines for preparation of the 2000-01 accountability reports is that they did not address the need for an adequate management/audit trail to support assertions made in the reports. We reviewed the guidelines issued by TPB for the preparation of the 2001-02 accountability reports and note that the above concerns raised by departmental staff have been addressed, and that the guidelines now include documentation standards including suggestions for file content.

2.16 Business plans prepared for 2000-01 were not required to include performance measures and targets related to each priority. As a result, accomplishments noted in the 2000-01 accountability reports were often described in subjective terms such as "progress continues to be made...." We understand that the business planning process is moving toward performance measures and targets and it is expected that future accountability reports will include more objective measures of results.

2.17 We acknowledge the effort made and resources utilized to produce these accountability reports. They represent an important step in the accountability reporting process.

Government's Revenue Estimates

2.18 Section 9B (1) of the Auditor General Act provides the Auditor General with the following mandate with regard to the government's annual revenue estimates.

> *"The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates."*

2.19 The Auditor General's Report on the 2002-03 Revenue Estimates was dated March 28, 2002 and tabled in the House along with the supporting information for the *Nova Scotia Budget* for the fiscal year 2002-03 on April 4, 2002. Exhibit 2.3 on page 34 is a copy of the Auditor General's Report on the 2002-03 Revenue Estimates.

2.20 At the conclusion of our review of the 2002-03 revenue estimates, we also forwarded a letter dated April 30, 2002 to the Minister of Finance providing the following summary observations on matters regarding the 2002-03 revenue estimates.

2.21 *Further to my report, I would like to draw your attention to the following summary comments or observations:*

- *The additional qualification paragraph in my report on the 2002-2003 revenue estimates resulted due to the fact that your staff were not able to determine what adjustment, if any, to the personal income taxes (PIT) estimate should have been considered for national and provincial economic circumstances.*

  In this regard, it should be noted that data from the federal government used in estimating the PIT revenue was received in mid-February in advance of Statistics Canada's updated - significantly revised - economic performance information released at the end of February 2002.

As appropriate, your staff adjusted their views on the national and provincial economic assumptions and indicators based on the updated information from Statistics Canada. However the new model that had been implemented by your staff for PIT had not yet been finalized. The part to deal with the impact of differences between the federal and provincial economic assumptions had not been developed. As a result, the PIT estimate is based on federal economic assumptions as opposed to those formally approved by Executive Council for purposes of the 2002-2003 revenue estimates.

Essentially this means that the PIT estimate, which was developed using data provided by the federal government using their own economic assumptions, has not been adjusted to reflect the different economic assumptions that your 2002-2003 revenue estimates are based on. The significance of this adjustment had not yet been quantified at the time of my reporting but will need to be taken into account in the accounting for the 2002-2003 PIT revenue, as well as for 2001-2002.

- *As indicated in previous years, the estimating of provincial economic performance and revenues is subject to a number of risk factors, not all of which are directly controllable to any significant extent by Nova Scotia government. In such circumstances, it is not unreasonable for a prudent degree of caution or conservatism to be incorporated into the economic assumptions and revenue estimates.*

  Further, despite detailed models and data available which are used to project economic activities and revenue levels, ultimately a requirement remains for a significant amount of professional judgement (economic or otherwise). This exercise of professional judgement to determine the economic assumptions and revenue levels to be included in the estimates is an integral, important and appropriate element of your staff's process for estimating revenues. The commentary on key assumptions published with your budget address is to provide summary information that will assist readers in assessing the assumptions used and the revenue estimates.

- *The Province continues to receive significant prior year adjustments (i.e., PYAs) through the various federal-provincial fiscal arrangements. It is our understanding that your staff used the most recent formal information from the Federal government - adjusted in certain instances for more current local conditions or considerations - in order to arrive at the estimates for 2002-2003 (as well as the forecast for 2001-2002, which is not specifically covered during my review). However, it must still be acknowledged that PYAs will most likely be identified during 2002-2003 for prior years and, with respect to the current year, in future years, and that they could be significant individually or collectively.*

  In this regard, further adjustments may be necessary to the PYAs (and the other revenue forecasts) for 2001-2002 included in the budget documents as a result of new updated information that becomes available prior to the finalization of the Province's March 31, 2002 summary consolidated financial statements.

- *Again this year, we acknowledge that the Province continues to experience challenges as it relates to the timing and substance of some of the data provided by the Federal government that is relevant to Finance's economic and revenue modelling for forecast or estimate purposes. Government should continue its efforts and deliberations with Federal Finance and the Canada Customs and Revenue Agency (CCRA) to satisfactorily resolve such matters.*

- *The processes and practices for the measurement, recognition and recording of revenue (i.e., for estimate and for accounting purposes) flowing to the Province from or through the various federal-provincial arrangements or agreements are complex and not well understood outside of the responsible division of your department. This is not only due to the nature of the arrangements or agreements themselves, but also that information and support received from the Federal government is adjusted by Nova Scotia Finance staff for more current or local considerations. It is our understanding that these adjustments do not affect the total revenue ultimately received from the Federal government, but do affect the timing of when the revenue is recognized in the Province's accounts.*

  Again this year it is suggested the processes and practices for recognition and recording of tax and other revenue transfers from the Federal government be reviewed, including consideration of the related accrual accounting practices in other provinces. To the extent appropriate, my staff continue to be prepared to assist or provide advice during such a review. Further, it is our understanding that Federal Finance and CCRA will be implementing accrual accounting for financial reporting of federal taxes.

- *Based on a review of the material provided by the Nova Scotia Gaming Corporation (NSGC) and the Nova Scotia Liquor Corporation (NSLC) supporting the totals for gaming and liquor net profits included in your 2002-2003 revenue estimates the following comments are provided.*

  - *Both entities used economic assumptions that were different than those developed and used by your departmental management staff for purposes of estimating the larger federal and provincial source revenues. In this regard, it is noted that the corporations' 2002-2003 business planning and budgeting processes were essentially completed well in advance of the formal setting of economic assumptions for the 2002-2003 revenue estimates. Further, we had no information that would indicate that if these entities used the government's assumptions that there would be a significant change in their budgeted net profits.*

  - *NSLC included in its budget a provision for a 2% increase in compensation (i.e., in line with increases in other provincial entities), while NSGC and its operators budgeted for increases more than twice that level.*

  - *The NSLC's financial statements for the March 31, 2001 fiscal period had a qualified audit opinion due to non-compliance with generally accepted accounting principles (GAAP) as it relates to the accounting measurement of certain employee benefit costs and obligations. It is our understanding that this matter is to be resolved for NSLC's March 31, 2002 and future financial statement reporting. As such there will be a yet undetermined but most likely relatively minor impact in relation to total ordinary revenue on the actual results reported for 2001-2002 and 2002-2003, that had not been incorporated into the forecast or estimate respectively.*

- *In addition to the PIT model changes referred to earlier, certain other models used to estimate, forecast and account for federal and provincial source revenue line items were modified in the past year. In this regard, we provide the following comments for consideration.*

- *Although there is a small and closely-knit professional staff within Fiscal & Economic Policy, new models or changes to key models or other processes should be appropriately documented and formally approved prior to implementation.*

- *As a result of new models and other changes implemented in the past year, certain of the line item 2001-2002 forecasts were arrived at on a basis different than that used for the 2001-2002 revenue estimates or those used for the 2000-2001 financial statements. If the new approaches represent 'change in estimates' for accounting purposes they may have to be taken into consideration when preparing the financial statements for the year ending March 31, 2002.*

2.22 In a response to the above matters dated July 29, 2002, the Minister of Finance advised that without the benefit of historic experience, the federal assumptions were the best alternative to provide as accurate a PIT review estimate as possible.

2.23 The concern relating to the accounting measurement for fiscal 2001-02, raised in the fourth paragraph of the first bullet in paragraph 2.21, was ultimately resolved in November 2002, during the audit of the Province's financial statements.

Recommendation 2.1

We recommend that policies and practices, used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government, be reviewed.

Province's Summary Consolidated Financial Statements

2.24 The Members of the Legislative Assembly (and the public) require financial information and reporting of the Province's financial position and results - both plans and performance - on a complete, understandable and timely basis. The adoption of generally accepted accounting principles (GAAP) as a basis of accounting in 1999 aided in filling this requirement. The use of GAAP as a basis of accounting provides an authoritative foundation or source upon which government can both choose and defend its accounting policy decisions.

2.25 For provincial governments in Canada, GAAP is represented by recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by CICA's other accounting standards, pronouncements, or practices.

2.26 At the time this Report was written, the government's summary consolidated financial statements (SCFS) for the March 31, 2002 fiscal year were to be released in December 2002 along with the Auditor's Report dated October 18, 2002, as part of Volume I of the *Public Accounts*. The Auditor's Report is reproduced in Exhibit 2.4 on page 35.

2.27 During the course of our audit of the government's March 31, 2002 SCFS, various findings and observations were noted. The following summary observations are provided at this time. A more detailed management letter will be issued to the Department of Finance in early 2003.

2.28 *Communicate statutory and policy requirements* - The June 2000 changes to the Provincial Finance Act provide for more oversight control by the Minister of Finance and Executive Council of financial management systems and significant transactions of all entities included in the government's reporting entity. Communication to all Provincial public sector entities of the above, as well as other existing statutory or policy requirements significant to financial management and control, is critical in order to optimize the coordination and exchange of information required to achieve effective control of public money, property or debt.

2.29 A number of matters have come to our attention that indicate a lack of awareness and understanding of statutory and policy requirements for financial management and control of the public purse. For example,

- Trade Centre Limited guaranteed a net profit for the World Junior Hockey Championship event without Executive Council approval (see Chapter 16 of this Report).

- Federal funds for early childhood development programs were available in 2001-02. The Department of Community Services created a privately incorporated society in late March 2002 in order to set up an accrued liability to this new entity, with an offsetting charge to the Department's program expenses, for Federal funds which were not going to be spent at March 31, 2002. We are not aware of any Executive Council or Department of Finance approval for the establishment of this entity, but the directors are all Department of Community Services employees.

- In February 20, 2002 correspondence to the Nova Scotia College of Art and Design and a financial institution, the Department of Education stated:

  "The Department of Education, subject to the Provincial Finance Act, hereby commits to maintain its current leasehold funding arrangements with the Nova Scotia College of Art and Design (NSCAD) to enable NSCAD to enter into a mortgage agreement. Payments to NSCAD will be directed first to the obligation of mortgage repayment. Payments under this funding arrangement amounted to $1,827,342.00 for the year ending May 31, 2001.

  This mortgage funding commitment to NSCAD shall continue for a term of twenty years or until repayment of the mortgage obligation, whichever occurs first. This funding commitment shall not exceed a total of twenty years from the date of the original mortgage."

  This funding commitment had not been reviewed and approved by Executive Council as required under the Provincial Finance Act.

- There was communication (between the Department of Transportation and Public Works and Transport Canada) relating to an undertaking to repay the Federal government $27.5 million provided through the Strategic Highway Improvement Program agreement to partially fund the Cobequid Pass section of Highway 104. We are not aware of any approval by Executive Council for such a commitment or undertaking.

2.30 In most of the above, it appears that entity management involved were not fully aware of or did not understand the legislated and policy requirements, especially in regards to the limits of their authority.

Recommendation 2.2

We recommend that government increase the level of awareness and understanding within and across the Provincial public sector of statutory and policy requirements (and limits) related to the financial management and control of the public purse.

2.31 *Release of updated management manuals* - Treasury and Policy Board (TPB) has been working on updating the government's management manuals. The Minister of Finance is responsible for the establishment of financial and accounting policies for government. The establishment of financial and accounting policies provides employees involved in those functions with a clear understanding of what is expected to be done and thus reduces the chance of error.

2.32 Controls could be improved if all approved policies were available in a financial management and accounting policy manual accessible by all staff involved in those functions. We understand that a draft manual was compiled and given to TPB for review and approval over a year ago.

2.33 Using the internet for communication of the financial management policy manual of government will also allow all entities in the government reporting entity (GRE) to be easily aware of government's policy statements, directives and other guidance, and to use them when establishing or amending their policies and practices.

Recommendation 2.3

We recommend government move forward with the release of the updated management manuals and that the government's financial and accounting policies include appropriate relevant extracts, references or linkages to external authoritative sources (e.g., Acts, Regulations, accounting standards) in order to support broader awareness and understanding of the policies.

2.34 *Informed central controllership function required* - The scope and mandate of the Department of Finance's controllership function, as it relates to implementation of accounting policy decisions and reporting standards within the government's reporting entity, need to be clearly defined and communicated. Further, Finance's Government Accounting Division needs to be made aware of significant transactions or decisions, and be more directly involved, on a timely basis, in determining the accounting consequences and other considerations.

2.35 This year, as in the past, we noted that Finance's Government Accounting Division often has to deal with identified accounting matters on a reactive, after-the-fact, basis. The information flow to Government Accounting on significant financial transactions or decisions by and across government should be improved so accounting policy considerations can be effectively dealt with on a more timely and proactive basis.

2.36 In this regard, the Government Accounting Division, through the government's website, can review Executive Council decisions that take the form of Orders in Council (OICs) to identify potential accounting issues and begin to deal with them on a more timely basis. However, for other decisions made by Executive Council or Treasury and Policy Board, not requiring an OIC, but having unique or significant accounting consequences, Finance staff need to have more timely and direct access to information. Mechanisms need to be established to ensure Finance's Government Accounting staff are made aware of and have ready access to supporting information to complete their job in an effective manner. For this to happen, Finance has indicated that senior financial and other executives within government need to forward accounting issues or concerns to Government Accounting on a timely basis.

2.37 *Achieving and maintaining compliance with GAAP* - Accounting standards are not static. Standard setters in Canada and internationally are always working on developing new or revised pronouncements in important areas. This is true for the CICA Public Sector Accounting Board which is the primary body issuing recommendations on public sector accounting in Canada. The following are the more significant matters in progress or on which PSAB has recently released recommendations. New formal recommendations or guidance in these areas could require accounting policy or statement presentation changes in the future:

- retirement and other post-employment benefits;
- foreign currency translation;
- liabilities, commitments and contingencies;
- government transfers;
- reporting entity;
- reporting model; and
- financial statement discussion and analysis.

2.38 The government, with leadership from the Department of Finance, needs to continue and possibly expand its efforts to monitor PSAB initiatives as well as relevant accounting recommendations from CICA and internationally, in order to ensure adjustments necessary to government's financial planning, budgeting and reporting remain in accordance with generally accepted accounting principles and are implemented on a timely and effective basis.

2.39 In September 2001, PSAB's Section 3250 Retirement Benefits was updated to encompass all retirement benefits as opposed to just pension benefits. The revised Section 3250 requires charging costs of health-related retirement benefits over the working life of employees, rather than as benefits are paid in the future.

2.40 The government had, in past years, already started to account for retirement or long-term service awards which are now covered by the scope of the new PSAB section. Based on the information available to us, accounting for health-related retirement benefits is the significant element that will need to be addressed in order to comply with the new PSAB recommendations.

2.41 It is our understanding that while earlier adoption is acceptable, in the absence of specific transitional provisions, *"PSAB encourages the adoption of its Recommendations as soon as practicable"*.

2.42 If the necessary information is readily available, new or changes to existing PSAB recommendations should be implemented retroactively. Finance had actuarial work completed to determine the magnitude of accounting for the obligations and costs for the health retirement benefits as at March 31, 2002 and for the year then ended. A commitment of $484.5 million has been disclosed in Note 12(c) of the Province's March 31, 2002 financial statements. In addition, Exhibit 2.5 on page 36 provides a summary analysis of these obligations of $453.4 million as at March 31, 2002, as determined by various actuaries. The difference of $31.1 million between the commitment and Exhibit represents interest related to these commitments.

2.43 Some of the entities which are part of the government reporting entity have accounting policies which are not in accordance with GAAP. Finance should direct all entities to move to GAAP which is the appropriate basis of accounting.

2.44 *Improve accounting control for restructuring* - The government's March 31, 2002 SCFS reported $65.4 million as restructuring costs. Certain costs in this account are associated with specific departments. Restructuring costs should be allocated to departmental expenses as much as possible.

2.45 Again this year we found that a variety of expenses are being charged as restructuring costs which should be reported against other appropriations. For example,

- salary negotiation costs;
- costs related to implementing pay for performance;
- costs for implementing new computerized financial systems in the Provincial public sector;
- costs accrued for potential settlement of law suits; and
- costs related to the campaign for fairness.

2.46 The accounting control and processes for this account need to be examined. Due to unnecessary complexity of the accounting during 2002 and an inadequate management/audit trail, significant time was required by Department of Finance Government Accounting staff to analyze the transactions posted by Treasury and Policy Board. This analysis resulted in significant adjustments to the balance in the general ledger at year end, including correction of double counting of expenses of approximately $84 million. Further, the audit of the final balance was delayed and required significant additional efforts by this Office.

Recommendation 2.4

We recommend that, if there continues to be a separate restructuring appropriation, accounting responsibility for it be transferred to Finance Government Accounting staff, in order to ensure no significant errors or omissions occur, and an adequate management/audit trail is maintained.

2.47 *Improve accounting control for Federal-Provincial revenues* - In prior Reports, we have suggested that the accounting policies and practices for Federal-Provincial revenues be subject to review. Our experiences on this year's audit of the Province's SCFS have provided more support for the requirement for a thorough and comprehensive review.

2.48 The following highlights the more significant matters of concern identified in the area this year.

- The management/audit trail for the accounting measurement and recording of receivables and payables related to Federal-Provincial revenue payments is inadequate. The significance of this situation is compounded by the magnitude of the entries made to these balances. One receivable and one payable account are used for all Federal-Provincial revenues. Staff were not able to provide us with an accurate segregation of the receivable/payable balances related to each revenue line item. We were able to reconcile the overall balances to ensure the financial statements were presented fairly. However, in order to properly manage the balances, there should be separate receivable/payable accounts for each revenue line item.

- The Federal-Provincial receivable and payable accounts are used to record year-end accruals resulting from staff use of economic models and other assumptions to estimate the revenue and receivable/payable for a particular line item for accounting purposes. Due to the substance or nature of the items being accounted for, there should be a clear segregation in the accounting records between the known receivable/payable amounts for each of the revenue line items and the amounts booked for the estimated accruals.

- PSAB allows for the estimation of self-assessed tax revenues and transfer payments as long as reliable methods are developed to support the amounts. Historically, Finance has used economic models to assist and support the budgeting and accounting for these revenues. As reported earlier in this Chapter (see Recommendation 2.1), we have recommended that the current accounting policies and practices in this regard be reviewed. Finance management has indicated that they plan to conduct such a review during 2003.

2.49 *Other observations* - As in the past, during this year's audit a variety of accounting or other related issues were identified for follow-up with the Department of Finance and others across government.

- Government Accounting staff assistance notwithstanding, we raised a number of accounting issues and requests for additional supporting information fairly early in this year's audit process that were not responded to on a timely basis. As a result, completion of required audit work was delayed at the expense of other audit work normally completed by our staff involved. In our view, the quality and timing of year-end accounting and reporting is not, but should be, a priority for all deputy head and senior financial executives (i.e., not just those at Finance).

- Unless final financial statements and requested supplementary supporting information from Provincial public sector entities included in the Province's SCFS is available when required, SCFS cannot be finalized for release on a timely basis. For March 31, 2002 year end, a number of entities were not successful in meeting the June 30th deadline prescribed in the Provincial Finance Act for provision of financial statements to the Minister of Finance. While there may be reasonable explanations for certain entities missing the reporting deadline in the past year, management of each entity covered by the Provincial Finance Act is responsible for ensuring that its statements are submitted to the Minister of Finance by June 30th.

Recommendation 2.5

We recommend the Department of Finance senior management provide necessary direction, guidance and, if necessary, support so that entities covered by the Provincial Finance Act meet the prescribed deadline of June 30th for financial statement reporting on a timely and effective basis.

- The status of Workers' Compensation Board as a trust, accounted for external to the government reporting entity for SCFS purposes, needs to be reassessed in light of recent statutory and policy changes which impact the level of control government can exercise over the Board and its operations. This may be further compounded by new recommendations pending from PSAB on the reporting entity for financial reporting by governments.

- As in prior years, government's budget for 2001-02 was prepared on a basis that was not consistent with that used for SCFS purposes. As a result the SCFS do not include disclosure of the original budgeted amounts for the line items on the Statement of Operations, which is required for full PSAB compliance. To compensate for this omission, government has included in the discussion and analysis included in Volume I of the *Public Accounts* 'unaudited' supplementary information which compares the accounting results to the original budget.

- We have reported previously that, in our view, the Government's Tangible Capital Assets (TCA) policy thresholds, for deciding which asset acquisitions are to be capitalized for accounting purposes, are too high. In early 2002-03, Finance Government Accounting initiated a review of the TCA policy.

- The Province's SCFS indicate there were $38.9 million of miscellaneous trusts under administration as at March 31, 2002 ($35.8 million - 2001). We noted that certain of the items included in this total did not represent trusts, but rather were special funds established by government for specific, defined purposes.

  Only actual trusts should be reported in the trusts under administration total, with special fund or other accounts being accounted for directly in the SCFS. The impact on the SCFS of appropriate adjustments will depend to some degree on whether the special funds and other accounts requiring adjustment are assessed as externally or internally restricted assets and revenue.

Corporate Financial Management Systems

2.50 There are various financial systems and products being used within and across the Provincial public sector. The following comments deal with a significant and continuing initiative to implement new financial information systems to support the management, control, accounting and reporting of financial performance of government, and Provincial public sector entities.

2.51 *SAP deployed to core government* - In April 1996, the Department of Finance undertook a major information technology project to implement a new Corporate Financial Management System (CFMS). The primary application software, which was selected as the result of a Request for Proposals in December 1995, was SAP R/3 (SAP).

2.52 The project ran for a period of one year and SAP was implemented on April 1, 1997 as planned. The design of SAP is based on the use of modules which focus on specific business areas. The modules and functions which were initially implemented included general ledger, budgeting, funds management, cash management, accounts payable, project accounting, procurement, goods receipt, inventory and accounts receivable.

2.53 In our 1998 Annual Report, Chapter 9, we summarized the results of an audit of the CFMS and SAP. The audit had been conducted by a national public accounting and consulting firm under contract jointly to the Department of Finance and the Office of the Auditor General.

2.54 The scope of the audit included coverage of the business and control environment surrounding CFMS as well as the management process surrounding the original CFMS implementation project. There were a total of 223 recommendations to address identified control weaknesses. Since the completion of that audit we have been monitoring, annually, the progress made in addressing the recommendations. The most recent status report provided to us by the Department of Finance reflected progress to June 2001. At that time the status showed:

Completed or Alternative Solution	177
Disagree	20
Work in Progress	10
Complete as Part of Upgrade	9
Budget or Resource	7
	223

2.55 The Department is presently in the process of reviewing and updating the status of all items not completed. The corporate internal audit group has taken responsibility for the status update.

2.56 *SAP deployed to broader public sector* - Over the past two or more years there has been significant effort focusing on the deployment of SAP across the Nova Scotia public sector including municipalities, universities, school boards, hospitals, etc. The Province, effective June 2000, expanded its SAP licenses under the *mySAP.com* program. The SAP licensing contract now entitles the Province to run 125,000 public sector employees through SAP's human resources and payroll modules and the government owns the rights for a total of 86,100 SAP users for all of the modules included in the contract.

2.57 Over the past year the Province has been upgrading its hardware infrastructure surrounding SAP and as a result will soon be in a position to provide a centralized and fully supported SAP infrastructure for any Provincial public sector entities wishing to use the service. The overall effect of these initiatives is to make SAP available to public sector entities regardless of size, and to those that otherwise may not have been able to do so. Also, as part of this initiative, the Province is helping to build and deploy standard implementation templates that will focus on specific sectors such as municipalities and school boards. This will provide a standardized structure and consistent reporting format for these entities.

2.58 In order to strategically plan and manage these projects, the Province is planning the establishment of a new accountability structure having the necessary authority and focus to fulfill a defined mandate. The SAP Project Office (SAP PO) will be established under the Office of Economic Development.

2.59 The draft mission of the SAP PO is

> *"...To provide a collaborative and integrated leadership framework, through developed program management standards, methodologies, processes and tools, to achieve the benefits and value realization of the Province of "e" initiative and supporting the broader Nova Scotia public sector in delivering efficient and effective programs and services."*

2.60 The draft mandate of the SAP PO is

> *"...The SAP PO will establish program strategies and recommend standards, tools, processes and methodologies associated with the implementation of the mySAP Public Sector solution. Further, the SAP PO will provide advice and guidance to Sector specific project teams and communicate to the Executive Steering Committee and other stakeholder communities as required, on Program progress."*

2.61 The Province is planning to establish the SAP Executive Steering Committee to provide advice, guidance and recommendations on SAP requested, planned and ongoing initiatives, to the SAP PO and the Business Technology Advisory Committee (BTAC).

2.62 The stated draft mission of the SAP Executive Steering Committee is

> *"...On a broader provincial public sector, the SAP Executive Steering Committee plays an advisory role and strategic direction setting body by analyzing, evaluating and recommending SAP initiatives for consideration and approval by BTAC."*

2.63 The stated draft mandate of the SAP Executive Steering Committee is

> *"...The SAP Executive Steering Committee will approve the SAP PO Program Charter and validate the Program's critical success factors. The Committee approves the directions or recommendations made by the SAP PO regarding SAP requested initiatives and priority status including resourcing needs, funding and forecasted expenditures, reviews and monitors SAP initiatives progress while mitigating identified risks, ensures effective communication by promoting the benefits to the various public sector audiences and supports the overall SAP initiative by effecting sound resource management processes."*

2.64 This group would be focused at a high program level only. The individual implementation projects would be accountable to their respective departments and sectors and would have their own steering committees directing and managing progress. The Executive Steering Committee is focused on the effectiveness of the overall program as well as priority setting, but the accountability for the projects rests with the departments and sector leads.

2.65 In regards to the SAP PO and the SAP Executive Steering Committee, the Province is presently in the process of establishing and assembling these bodies, both of which will fall under the Office of Economic Development.

2.66 The implementation of SAP has now been completed or planned in the following areas:

- core provincial government;
- all 7 Regional School Boards;
- of the 55 municipal entities;
    - 6 have already implemented, including the Regional Municipalities of Halifax and Cape Breton
    - 4 have begun the process
    - 6 are ready to begin the process
    - 12 have initially declined
    - 27 have yet to decide
- all 7 Regional Housing Authorities;

- University College of Cape Breton; and
- preliminary feasibility and planning are now underway to consider and assess SAP for the District Health Authorities.

2.67 As indicated earlier, there are a variety of SAP functional modules available for implementation. There are differences across the Provincial public sector as to which specific modules have been implemented. Certain of the entities which have implemented SAP are now considering the deployment of additional modules beyond those originally implemented. For example, the Nova Scotia government and the Regional School Boards are now participating jointly in a project to implement the SAP human resources module including payroll.

2.68 As well, there has been a special e-business related project underway through Service Nova Scotia and Municipal Relations. This is a "Proof of Concept" project related to providing a single point of entry to Provincial services and real-time online transactions via the internet. This project has been developed based upon the use of the SAP Portal. Testing is to be completed in fall 2002.

2.69 The deployment of SAP across the Provincial public sector is a major undertaking which will be addressed through specific projects over the next several years. It is very important that there be a requirement, in the planning and approval process, for the benefits to be derived in each and every project to be clearly defined and measureable. Also, a formal requirement should be established for reporting on the realization of benefits. Such requirements would represent key ingredients in the management and accountability processes.

> ***Recommendation 2.6***
>
> *We recommend that BTAC establish a formal policy requiring identification of benefits as part of the planning and approval process for major IT projects, and requiring reporting of realization of benefits subsequent to implementation. The specific benefits expected to be derived from the deployment of SAP, as well as for any other business solution products that may be implemented, should be appropriately defined in a manner that is clear and measureable as part of the planning and approval process. Further, there should be a formal requirement for reporting the realization of the benefits to BTAC in accordance with the realization time lines set out in the approved plans.*

2.70 *Audit coverage* - We had planned to perform detailed audit work on the CFMS/SAP for core government during 2002. However, due to significant changes and upgrades to the SAP infrastructure which are currently underway, we decided to defer the audit until 2003. During 2002 the hardware infrastructure supporting SAP was changed from HP to SUN and a new operating system was implemented (SOLARIS UNIX). As well an upgrade is currently underway to a new release of SAP which will also result in significant changes to the security structure.

2.71 As the result of all these changes, which would have significantly affected the scope of our audit, we performed only a preliminary survey of CFMS/SAP. This survey provided us the opportunity to ask questions and gather certain key documents which will be used to assist us in the detailed planning of our audit. It also provided us the opportunity to research and define our security access requirements as auditors for future coverage of SAP.

Other Matters

2.72 The comments in this section relate to a variety of matters of an accountability or control perspective that may be of interest to the House of Assembly.

2.73 *Follow-up matters* - In previous years, the Auditor General's Report has included various recommendations in Chapter 2. Action has been taken on many of these. The following is a summary highlighting areas where we believe action is still warranted.

- Approvals for additional spending authority required (e.g., additional appropriations) and write-offs should be in place on a timely basis.
- Accountability would be enhanced if procurement policy exceptions were reported to the House.
- Government continues to work on finalizing necessary updates and amendments to its Management Manuals relating to financial management. While we appreciate the reasons for delays in completing this initiative, we urge government to finish this matter as soon as possible.
- The applicability of the Management Manuals to Provincial public sector entities other than core departments and agencies should be clarified. The starting point for such an initiative would be a clear and concise listing of the basic or fundamental principles to be met when public funds or property are involved.
- Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

2.74 As noted elsewhere in this Report, our Office is implementing certain changes to the Report of the Auditor General and our follow-up processes. Significant recommendations will be highlighted in each Chapter, and three years after the period to which a Report applies, the Office will conduct a specific audit following up on recommendations.

2.75 *Statutory reporting requirements* - This Office supports timely reporting to the House. However, statutory reporting requirements need to be reasonable, realistic and achievable. Statutory provisions sometimes specify reporting requirements (e.g., deadlines) that for practical purposes cannot be met. For example, the statutory provisions for the Public Service Superannuation Fund and for the Sydney Steel Corporation Superannuation Fund require reporting by April 30, for fiscal years ending March 31, which is not likely to be achieved.

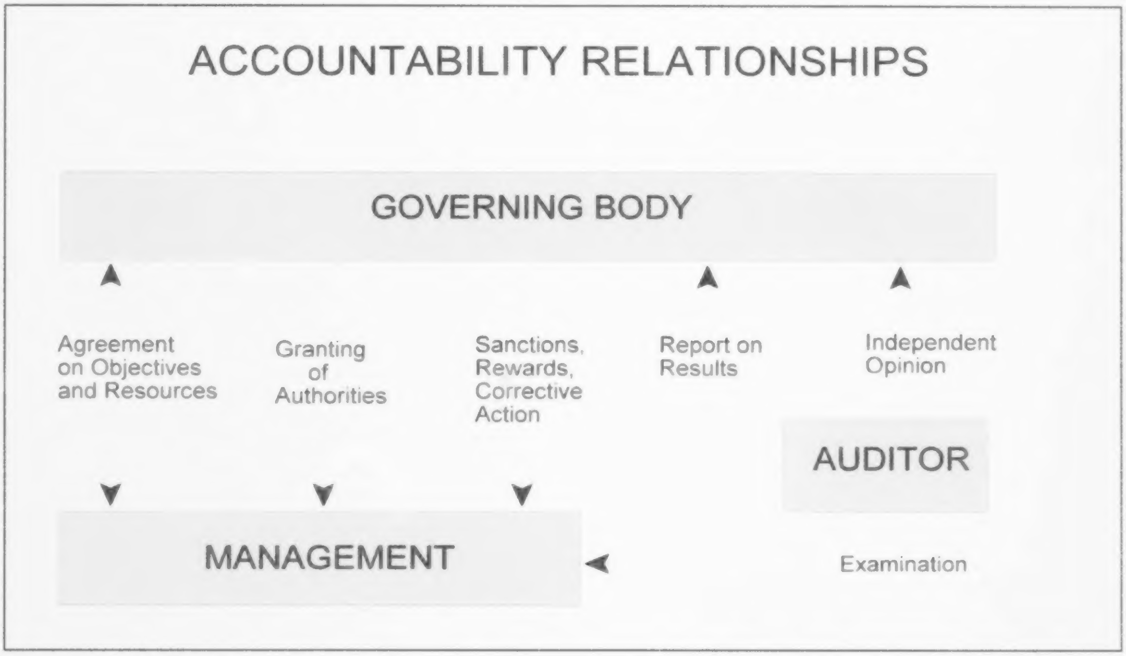
CONCLUDING REMARKS

2.76 An effective accountability framework should provide or result in an appropriate balance of information and reports to the House of Assembly on the plans and performance of government overall and individual departments or agencies, both from a financial and a program delivery or service perspective. The goal is better information and reports, not just more.

2.77 There have been a number of initiatives undertaken to improve the quality and timeliness of information and reports available on the government's plans and priorities. The Department of Finance and the Treasury and Policy Board have taken, and are still taking, steps to improve the nature and quality of the information and reports available.

2.78 The government's implementation, in order to comply with generally accepted accounting principles, of new and pending accounting recommendations from the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board will continue to put significant pressure on the achievement of government's fiscal plans.

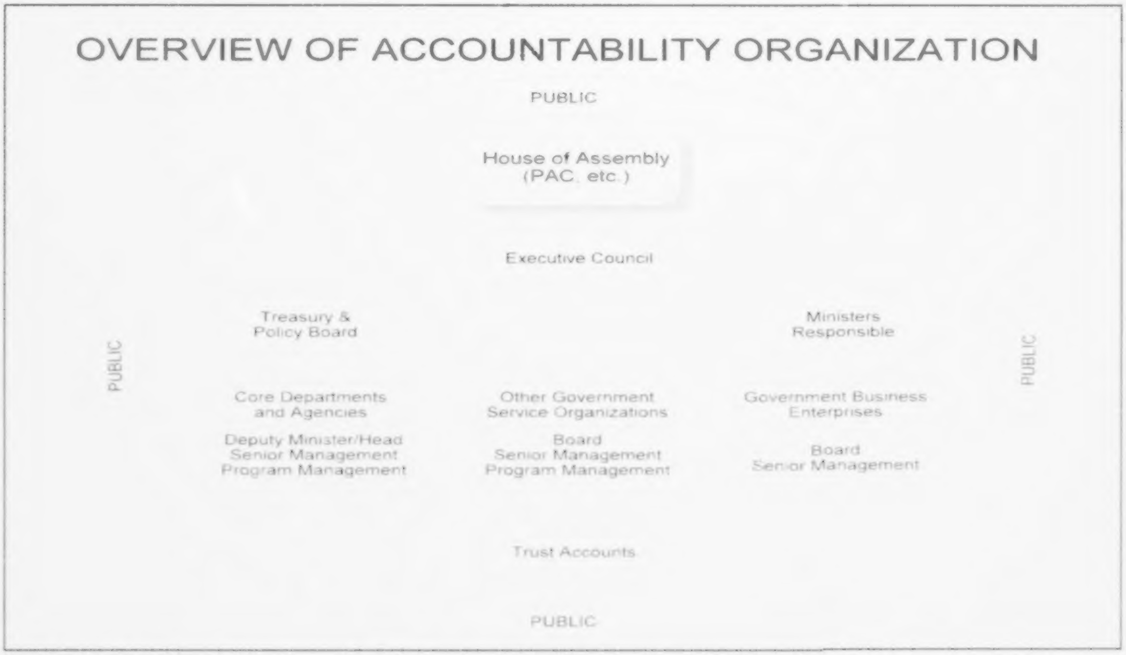
Exhibit 2.1



ACCOUNTABILITY RELATIONSHIPS

GOVERNING BODY
Agreement on Objectives and Resources
Granting of Authorities
Sanctions, Rewards, Corrective Action
Report on Results
Independent Opinion
AUDITOR
MANAGEMENT
Examination

Exhibit 2.2



OVERVIEW OF ACCOUNTABILITY ORGANIZATION

PUBLIC
House of Assembly (PAC, etc.)
Executive Council
Treasury & Policy Board
Ministers Responsible
PUBLIC
PUBLIC
Core Departments and Agencies
Deputy Minister/Head
Senior Management
Program Management
Other Government Service Organizations
Board
Senior Management
Program Management
Government Business Enterprises
Board
Senior Management
Trust Accounts
PUBLIC

Exhibit 2.3

REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY ON THE ESTIMATES OF REVENUE FOR THE FISCAL YEAR ENDING MARCH 31, 2003 USED IN THE PREPARATION OF THE APRIL 4, 2002 BUDGET ADDRESS

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2003 (the 2002-03 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 6, 2002. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2002-2003 revenue estimates of $5,306,658,000 for total ordinary revenue. My opinion does not cover the 2001-2002 forecast, the 2002-2003 expense estimates, sinking fund earnings, nor the recoveries, user fees or other income netted against expenses for appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented consolidated financial statements reporting in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior years, the 2002-2003 revenue estimates have been presented including the total ordinary revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations reported as revenue in the Province's consolidated financial statements are excluded from the 2002-2003 revenue estimate for total ordinary revenue, but included elsewhere in the 2002-2003 estimates, and have not been included in my examination.

During 2001-2002, the Department of Finance used a new model to support the estimating of revenue from personal income taxes. The change in model was required due to the move in 2000 from calculating provincial income taxes based on basic federal taxes to a tax on net income. The new model had not been fully implemented at the time of our review. The effect on the 2002-2003 revenue estimate of any further adjustments required to the model can not be determined at this time.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matters discussed in the preceding paragraphs, in my opinion,

- as at the date of this report, the assumptions used by the Department are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 2002-2003 revenue estimates; and
- the 2002-2003 revenue estimates as presented reflect fairly such assumptions.

Since the 2002-2003 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and variations may be material. Accordingly, although I consider, except for the matters discussed above, the 2002-2003 revenue estimates to reasonable, I express no opinion as to whether they will be achieved.

E.R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
March 28, 2002

Exhibit 2.4

AUDITOR'S REPORT

To the Members of the Legislative
Assembly of Nova Scotia

I have audited the consolidated statements of financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2002 and the consolidated statements of operations, net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidatd financial statements present fairly, in all material respects, the financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2002 and the results of its operations, changes in net direct debt and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
October 18, 2002

Exhibit 2.5

ESTIMATED ADDITIONAL RETIREMENT BENEFIT[1] OBLIGATIONS TO BE ACCOUNTED FOR UNDER REVISED ACCOUNTING STANDARD PS3250

	Actuarial Obligation March 31/02	% Allocation of Premiums		Actuarial Estimates of Current Service Cost 2001-02	Actual Interest Cost 2001-02
		Employer	Pensioner		
Public Service Superannuation Plan	$ 150,302,000	65%	35%	$ 4,247,000	$ 10,255,000
Members' Retiring Allowance Act	964,107	65%	35%	42,176	63,588
Teachers' Pension Plan	284,788,788	100%	0%	7,905,562	18,721,804
Sydney Steel Corporation Superannuation Plan (Sysco)	17,329,165	100%[2]	0%	-	1,189,405
	$ 453,384,060			$ 12,194,738	$ 30,229,797

(1) *Includes health and dental benefits and, for certain Sysco pensioners, life insurance coverage as well.*

(2) *Sysco pensioners contribute a nominal amount each month toward their prescription drug plan. Coverage under this plan ceases at age 65. Life insurance benefits are fully paid by the Province.*

DEPARTMENTAL AUDITS

3.

EDUCATION - HIGHER EDUCATION AND ADULT LEARNING BRANCH

BACKGROUND

3.1 The activities, programs and services provided by the Higher Education and Adult Learning Branch are diverse. This Branch of the Department of Education manages the adult learning initiatives, private career colleges, rehabilitation training, student assistance program and apprenticeship training. Higher Education and Adult Learning acts as the liaison between the Department and Regional Library Boards and certifies teachers for the Nova Scotia public school system. The Branch is also responsible for liaison with the Nova Scotia Community College and the Collège de l'Acadie. In addition, this Branch of the Department is also responsible for administration of Community College grants and allocation of funds to degree-granting institutions through the Universities Assistance vote.

3.2 During the last two years the Department of Education has been in the process of changing its organizational structure. See the current organization chart in Exhibit 3.1. The Higher Education and Adult Learning Branch was formed in 2001-02 from Divisions within the former Training and Financial Assistance Branch, Policy Branch, Youth Secretariat, and the Council on Higher Education. Branch expenditures for the past two fiscal periods are shown in Exhibit 3.2.

3.3 Our audit focused on the Student Assistance, Nova Scotia Provincial Library (NSPL) and Private Career Colleges Divisions of the Branch.

RESULTS IN BRIEF

3.4 The following are the principal observations from this audit.

- The Department has not collected appropriate data or developed an appropriate model to determine the Province's likely exposure for fully guaranteed loans that may default. At the present time, as was the case in 1997, our audit determined that loan default information supplied from the bank was insufficient to fully meet the Department's needs. We recommend that the Department assess and determine ongoing information needs and establish systems and processes to collect this information.

- Students are no longer required to submit copies of tax returns with their student loan applications. The Department did not perform an adequate assessment of the risks associated with moving to less stringent supporting documentation for loan applications prior to making that decision. We recommend that the Student Assistance Division thoroughly review the potential implications and risks, and identify actions required by the Division to mitigate those risks. We also recommend that the Student Assistance Division develop a formalized audit approach, and consider the merits of accessing electronic information from the Canada Customs and Revenue Agency to verify income.

- We recommend that the Branch and individual Divisions prepare operational plans that provide a clear link between the overall Departmental goals and priorities and the more specific goals, priorities, and activities of the Branch and Divisions. These Branch and Divisional priorities, goals and objectives should support and facilitate achievement of those identified for the Department.

- The Department has not established internal processes for formally measuring and reporting on Divisional performance and outcomes to the House of Assembly and the public. Such information would help assess the effectiveness and efficiency of Divisional operations and fulfill the accountability responsibilities of the Department.

- The Private Career Colleges Division is currently not meeting its target of annual inspections of all colleges and also should improve its documentation relating to the monitoring of college financial statements. These improvements would help to protect the interests of students.

AUDIT SCOPE

3.5 Our audit focused on administration of Student Aid, the Nova Scotia Provincial Library and regulation of Private Career Colleges. These programs are administered by the Higher Education and Adult Learning Branch of the Department of Education.

3.6 The specific objectives of this assignment were to review and assess:

- the operational planning processes;

- the accountability relationships with service providers, funded agencies and within the Department of Education;

- the adequacy of performance reporting on the operation of programs;

- whether systems and practices relating to the grant processes for the Provincial Library and Student Aid programs provide for adequate controls and compliance with legislation, Departmental policies and agreements; and

- the status of findings from previous Reports of the Auditor General in these areas.

3.7 The audit criteria were taken from recognized sources including the Office of the Auditor General of Canada's *Financial Management Capability Model*; the Office of the Auditor General of Canada's *A Framework for Identifying Risk in Grant and Contribution Programs*; the Office of the Auditor General of Canada and Treasury Board Secretariat's *Modernizing Accountability Practices in the Public Sector*; the Canadian Institute of Chartered Accountants Criteria of Control Board's *Guidance on Control*; and the Canadian Institute of Chartered Accountant's *Public Sector Accounting Handbook*.

3.8 The general criteria used in our review are summarized as follows.

- The Branch establishes and communicates its operational goals and objectives. These should include measurable performance targets and indicators against which performance is monitored.

- When significant changes occur, management assesses, documents and reviews them to determine how they will affect resources, risk, the achievement of operational objectives and the control framework.
- The roles and responsibilities of the parties in the accountability relationship should be well understood and agreed upon.
- Credible and timely information should be reported to demonstrate the performance achieved and should be used to monitor performance.
- For grant programs, program officers should understand the terms and conditions; funding should be used for the purposes agreed; money owed to the government should be collected; and grants provided should be in compliance with the requirements of the applicable Acts and Regulations.
- Financial reporting of Student Aid grants, expenses and liabilities should be in compliance with the Canadian Institute of Chartered Accountants' Public Sector Accounting Handbook requirements.

PRINCIPAL FINDINGS

Branch-wide Findings

3.9 *Departmental Business Plan* - The Department of Education prepares an annual Business Plan using the format and template developed by an Interdepartmental Policy Advisory Council. The Plan includes a mission statement, core business functions, goals, priorities and outcome measures. It is written from the Departmental perspective and designed to meet the Department's accountability obligations to central government agencies.

3.10 The Department of Education has many significant responsibilities in addition to the programs examined as part of our audit, including overall responsibility for the public school system, assistance to universities, and the Nova Scotia Community College. The 2001-02 Departmental Business Plan established six broad Departmental goals which appear to be consistent with the activities of the Student Assistance, NSPL and Private Career Colleges Divisions.

3.11 The Departmental Business Plan is highly summarized. Individual Branches and Divisions should prepare operational plans. Operational plans would provide detail of the more specific goals, priorities, and activities of the Branch or Division and a linkage to the overall Departmental goals, priorities and activities.

3.12 An operational plan typically includes goals, priorities and objectives for the Branch or Division for the current year; expected results; activities to be performed in delivering the product or service; a realistic time schedule for carrying out the activities; key milestones to be achieved; resources needed; assignment of responsibilities; performance measures and targets; and accountability reporting requirements to senior management. These plans should be approved by senior management.

3.13 *Performance reporting* - In its simplest terms, accountability means the obligation to answer for an assigned responsibility. An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes. Accountability relationships exist at many levels at the Department of Education - Department to central authorities and the House of Assembly, Branch management to senior Department management, and Division management to Branch management.

3.14 The reporting of results or outcomes against a pre-established target level of activity is a key element of the accountability relationship. The reporting of performance is very important to ensure that all parties are fulfilling their respective responsibilities.

3.15 The 2001-02 Business Plan of the Department of Education contains several performance indicators and measures for the Department as a whole. In many cases baseline data and targets have yet to be developed. The Department's Business Plan includes two measures specific to Divisions reviewed as part of this audit.

- To determine the success of providing a relevant and high quality training system by measuring the number of schools (private career colleges) registered.
- To assess the improved access to education and training by comparing the debt level of Nova Scotia students at the time of graduation to the debt level of students in the other provinces in Atlantic Canada.

3.16 As with most Departmental measures, the baseline data and targets have yet to be developed. Once set, the targets are to be achieved in fiscal 2004-05.

3.17 The Department has not established internal processes for formally measuring and reporting on Divisional performance and outcomes to Department management. The presentation and approval of Divisional operational plans, including performance indicators and targets, to senior management would serve to provide both Branch and Department senior management with better information to assess the effectiveness and efficiency of Divisional operations and fulfill the accountability responsibilities of the reporting party.

Recommendation 3.1

We recommend that the Branch and individual Divisions prepare operational plans to provide a clear link between the overall Departmental goals and priorities and the more specific goals, priorities, and activities of the Branch and Divisions. The plans should include measurable performance indicators and targets. The Divisions should each report performance in relation to the plan.

Student Assistance

3.18 *Background* - The purpose of the student assistance program is to provide financial assistance to eligible students, thereby providing greater access to post-secondary education. The Student Assistance Division administers Canada Student Loans (CSLs), Nova Scotia Student Loans (NSSLs) and the Canada Millennium Scholarship. The Division also oversees disbursements of Canada Study Grants for students. Significant legislation and agreements include the Student Aid Act, Millennium Scholarship Foundation Agreement and the Agreement and Memorandums of Understanding between the Royal Bank of Canada and Province of Nova Scotia.

3.19 The Nova Scotia Student Loan Program was established in 1993. For the first few years loans were issued by the Canadian Imperial Bank of Commerce. Since 1997, the Royal Bank has been the sole issuer of loans. The first agreement with the Royal Bank of Canada was signed in 1996. Since that time, there have been a number of amendments to that agreement and three Memorandums of Understanding. The current Memorandum of Understanding extends the Royal Bank's financing and management of the N.S. Student Loan portfolio to July 31, 2003.

3.20 The Province pays interest to the Bank while the student attends school and for six months after the completion of studies at an interest rate equal to the Bank's prime rate plus .25%. Students are required to commence loan repayment after that date at an interest rate of Bank prime plus 2.5% or 5.0% depending on whether a variable or fixed interest rate is selected by the borrower. The standard repayment period of a student loan can be as long as nine and one-half years depending on the amount of the loan. For 2001-02, the Province paid $4.1 million to the Royal Bank excluding interest relief of $2.6 million and risk premiums of $1.5 million.

3.21 The Bank bears the risk for loans negotiated up to July 31, 2000, but receives a one-time fixed fee, or risk premium, of 10% of the loan balance at the time repayment by the student commences. The Province bears the risk for loans negotiated subsequent to that date. As at July 31, 2002, guaranteed loans outstanding of $76.0 million represented 45.9% of the $165.6 million total balance of loans outstanding.

3.22 Our last audit of the Student Assistance program was conducted and reported on in 1997 (see Chapter 10 of the 1997 Report of the Auditor General). Since that time there have been several significant changes to the program. Exhibit 3.7 provides a follow-up on some of the issues identified in our 1997 audit.

3.23 Actual net expenditures in 2001-02 for the Student Assistance Division were $13.3 million (2000-01 - $20.4 million) (see Exhibit 3.2). Included in the expenditures of the Student Assistance program are amounts relating to the establishment of a reserve to provide for future NSSL defaults. In 2000-01, $12 million was added to the reserve and in 2001-02, $4 million was added for a total current reserve of $16 million. For the 2001-02 application year (August 1st to July 31st) the Division processed 21,720 loan applications, disbursing $38.7 million for 10,233 NSSLs. Currently the Division has a full-time staff complement of 34.

3.24 *Divisional plans* - The Student Assistance Division prepares an annual work plan highlighting key dates or time frames for important tasks and functions. This work plan is for Divisional use. It includes some of the elements of the typical operational plan described in paragraph 3.12.

3.25 *Roles and responsibilities* - The Province has partnered with the Royal Bank in providing NSSLs as the Province does not issue the loan directly to the student, but issues a Certificate of Eligibility to the student for presentation to the Royal Bank (the sole lender of student loans). The current legislation does not permit the Department to issue student loans directly. The Department must use a third-party lender. The roles and responsibilities of both parties are detailed in the Agreement and Memorandums of Understanding between the Royal Bank and the Department of Education. These responsibilities seem to be well understood by the Department, students and those in the educational field. Student responsibilities relative to the Certificate of Elibigility are documented on the back of the Certificate.

3.26 Student Assistance also provides other financial assistance to students. Descriptions of other assistance and the roles and responsibilities of students and the Department are clearly detailed on the Department's website, and made available at educational institutions.

3.27 *Performance reporting and monitoring of operations* - Student Assistance does not produce its own annual report. It is included in the Annual Report of the Nova Scotia Council on Higher Education (now the Nova Scotia Advisory Board on Colleges and Universities). The most recent Report is dated 2000 and contains financial data from 1998-99 for Student Assistance. Results achieved are not compared to targets or standards.

3.28 Student Assistance monitors activities from applications received to Certificates issued. Workload reassignment decisions are made on a daily basis to smooth workload responsibilities. Status of Certificates issued is monitored monthly to ensure management is aware of any variances on a timely basis.

3.29 *Current Memorandum of Understanding with Royal Bank* - Amendments since the original agreement in 1996 have extended the partnership arrangement with certain alterations (e.g., increasing the risk premium rate, Province fully guaranteeing loans). The current partnership arrangement is in place until July 31, 2003.

3.30 A Memorandum of Understanding was signed in July 2001, and extended in January 2002, setting out the parameters for exploration of a new partnership arrangement. Both parties agreed that the Bank's loan accounting system is inadequate to meet the Province's NSSL information and reporting requirements and a new system is required. The Province and Bank both have an interest in finding an Atlantic region solution to the problem of administering student loans.

3.31 *Provincial loan guarantees* - The Province fully guarantees all student loans negotiated from August 1, 2000 onward. This is a major change in the Student Assistance program that has had a significant impact on the financial exposure of the Province relative to student loans. The Province now bears the risk for those loans that default and therefore no longer pays a risk premium to the Bank on loans negotiated since August 1, 2000. The responsibility for collection of defaulted loans by the Province has been assigned to the Department of Service Nova Scotia and Municipal Relations and has not been included in this audit. See Exhibits 3.4 through 3.6 for information on the student loan portfolio.

3.32 The Royal Bank of Canada provides proof of due diligence related to collection procedures for defaulted loans at the time payment is requested from the Province. Based on our review of a sample of Student Assistance files supporting loan default payments, evidence of collection activity has been provided and appears reasonable. We noted as a result of our review that several claims for defaulted loans were paid to the Royal Bank prior to the 180-day period established in the Memorandum of Understanding. We have been informed by management that this error was subsequently corrected.

3.33 Due to the fact that the student loans disbursed by the Royal Bank of Canada are guaranteed by the Province, generally accepted accounting principles require that the Province recognize any potential liability and corresponding expenditure associated with the guarantees at the time of the issuance of the loan. As at March 31, 2001, the Province (in Schedule 6 to the Public Accounts) has disclosed guarantees of $33.3 million and recognized a related liability of $12 million. To accurately estimate the Province's possible financial exposure from this program change and determine whether the Province is appropriately providing for this liability, information on historical default rates over the life of loans should be available. The Province currently does not have such information. Division management has indicated that other provinces have also experienced difficulty in obtaining such information from banks. The Department, when negotiating future agreements, should ensure that all its information needs have been considered.

3.34 The default rates vary by type of institution as shown in Exhibit 3.6 and also for specific institutions. The Student Assistance Division proposed a new Student Assistance Designation Policy to help ensure the Student Assistance Program is sustainable over time. The proposed policy states "*Student financial assistance is limited and therefore, designation criteria should allow for the cessation or restriction of taxpayers investment when the likelihood of loan repayment is not acceptable.*" An institution's default rate is proposed as one of the tools for measuring the likelihood of loan repayment. A Designation Policy is needed to provide for the delivery of the NSSL program with due regard for economy and efficiency. The proposed policy has not been approved by Executive Council.

Recommendation 3.2

We recommend that the Department of Education continue to pursue a Designation Policy for the Student Assistance program.

3.35 The Department has not collected appropriate data or developed an appropriate model to determine the Province's exposure for guaranteed loans that default. At the present time, as was the case in 1997, our audit determined that loan default information supplied by the Royal Bank of Canada was insufficient to fully meet the Department's needs.

Recommendation 3.3

We recommend that the Department assess its information needs related to historical default rates for student assistance and establish systems and processes to collect this information.

3.36 *Verification of interest billings* - The Province of Nova Scotia pays the interest on student loans while students are studying and for six months after completion of studies. Interest payments to the Royal Bank for 2001-02 were $3.9 million. The Department performs an electronic edit check on Bank interest billings. In our 1997 Report we recommended that the Student Assistance Division change the tolerance level accepted as 'normal' in the edit procedure. At that time only those Bank interest charges on individual loans that varied by over 100% from the interest amount calculated by the Province were followed up for explanation. We have been advised that the tolerance level is soon to be reduced to 25% variance.

Recommendation 3.4

We recommend that the Department improve its electronic edit processes related to interest charges billed by the Bank to the Province.

3.37 *Interest relief accrual* - The Province has an interest relief program which provides for an additional 30-month interest-free period, at any time during the repayment period, should the borrower be unemployed or underemployed. Loans on interest relief as at September 30, 2002 were approximately $20.6 million or 37.2% of the total loans eligible. The Province recorded $2.6 million in interest relief expenditures in 2001-02.

3.38 As in 1997, we found that expenditures for interest relief continue to be recognized on a cash basis as interest billings are received from the Bank. As student loans are issued, there is a potential liability to the Province for interest relief claims associated with those loans that may become eligible under the interest relief program during the repayment period.

Recommendation 3.5

We recommend that the Department accrue an estimate of future interest relief claims, based on past experience, in the year in which student loans are issued.

3.39 *Student loan application verification* - Since application year 1997, the Student Assistance Division has not requested many of the documents that were once used in verifying the financial status of an applicant and parents or spouse. Source documents such as income tax returns, divorce agreements, and childcare receipts are not required to be submitted to the Student Assistance Division. The Student Assistance Division would only require previous year income tax detail if the applicant was submitting a reduced income claim or was being audited. Instead, applicants self-declare all pertinent financial information on the application form. The Student Assistance Division does not verify the applicant's or supporting person's income with the Canada Customs and Revenue Agency (CCRA) files. This income verification procedure is currently being performed by the majority of other provinces. Department of Education management have indicated that they are currently investigating the possibility of obtaining income information from CCRA.

3.40 To compensate for using self-declared financial information in the application process, the Student Assistance Division planned to perform audits of applicants' submitted information. All applicants are notified that application information submitted to the Student Assistance Division is subject to audit. In addition, all applicants 22 years or older are required to successfully pass a credit check prior to being approved for a loan.

3.41 The Student Assistance Division's audit planning is inadequate as there is no specific plan or schedule of audits to be conducted. Furthermore, the Student Assistance Division does not perform formal risk assessments in determining where audit effort should be focused. To date, only applications submitted electronically have been subject to any audit procedures. Therefore, 31% of loan applications (those not submitted electronically) have not been included in Student Assistance's audit initiatives. The Student Assistance Division's total audit efforts to date have consisted of requesting supporting receipts from 91 applicants claiming child care costs. No other information has been audited. To obtain reasonable assurance with respect to applicant information, the Student Assistance Division should develop a formalized audit approach.

3.42 As part of our audit procedures we interviewed Student Assistance Division management to determine the rationale used in support of the decision to request significantly less supporting documentation from applicants. Management indicated that this move was made to help speed up the processing of applications consistent with the move toward the new web-based application system. There is no documentation of risk analysis and expected benefits of this decision. The average processing time for loan applications was 21.6 days for application year 1996-97 and 13.6 days for application year 2001-02.

3.43 We understand, through discussions with legislative auditors in other provinces, that most provinces either request copies of tax returns from all student loan applicants and parents, or verify reported income by matching with electronic tax records obtained from the Canada Customs and Revenue Agency. Certain provinces also routinely search electronic databases to determine if the applicant owns assets such as cars. In those few provinces where a sample of applicants is selected for audit and income verification, the percentage of applicants audited is larger than in Nova Scotia.

3.44 Based on our discussions with Division management, it appears that an adequate assessment of the risks associated with moving to less stringent supporting documentation for loan applications has not been performed. The Student Assistance Division should thoroughly review the potential implications and risks and identify actions required by the Division to mitigate those risks.

Recommendation 3.6

We recommend that the Department perform an analysis of risks affecting the Student Assistance program, and implement appropriate preventive and detective controls. The Department should consider either verifying the income of Student Assistance applicants and supporting persons through electronic comparisons with CCRA data and/or establishing a formal, comprehensive audit regime.

3.45 *On-line applications* - Students now have the ability to apply for NSSLs on-line. Application year 2001-02 was the first year for a web-based application system. On-line applicants self-declare financial information. The web application system performs various edit checks on data submitted electronically by the applicant. The validity of social insurance numbers and sufficiency of academic course load are edit checks automatically performed on all electronically submitted applications. However, the Student Assistance Division was unable to produce a complete list of automatic edit checks. We suggest that the Student Assistance Division formalize and document on-line application control procedures.

3.46 At the time of writing this Report all applications received on-line had to be manually entered into Student Assistance's electronic loan processing system. We understand, based on our discussions with Division management, that they are currently in the process of acquiring an electronic interface between the two applications to eliminate the need to re-enter the information.

3.47 *Computer environment* - We provided Student Assistance information technology staff questionnaires pertaining to the system of computer environment controls. Based on the responses received to the questionnaires and subsequent discussions with management, we found the controls as described to us to be adequate.

3.48 *Testing of student assistance applications* - We tested 25 loan applications for student eligibility, accuracy of loan calculations, proper supporting documentation in the student file and timeliness of processing. Based on our analysis, 23 of the 25 student loans were processed appropriately. We noted one instance where the Student Assistance Division failed to consider all members of an applicant's family for the purpose of determining the applicant's parental contribution. To ensure that up-to-date information is used in loan calculations, we believe that the Student Assistance Division should improve its controls over updating of permanent data.

3.49 Our testing also revealed that the Student Assistance Division approved the disbursement of financial aid to a student with a history of academic problems, prior to ensuring current eligibility. We have been advised by the Division that the computer system does not flag the files of students with academic deficiencies. Files must be manually identified by the assessor. This weakness in the approval process for disbursements should be remedied.

Provincial Library

3.50 The Nova Scotia Provincial Library (NSPL) provides leadership in coordinating library services throughout Nova Scotia. Providing leadership at Provincial and national levels on matters affecting libraries, promoting resource sharing and enhanced document delivery among N.S. libraries, providing funding support to regional public libraries through various grant programs and developing and maintaining a high quality database of Nova Scotia regional library materials are all responsibilities of this Division.

3.51 Our last audit of the Nova Scotia Provincial Library was conducted and reported on in the 1995 Report of the Auditor General - Chapter 6.

3.52 Actual net expenditures in 2001-02 for this Division were $1.5 million (see Exhibit 3.2). Grants to Regional Library Boards (RLBs) for 2001-02 were $10.0 million (see Exhibit 3.3). Currently the Division has a full-time staff complement of 22.

3.53 *Divisional plans* - The Nova Scotia Provincial Library establishes annual goals and objectives in conjunction with the Council of Regional Librarians, within the framework of the Department's priorities. Goals are communicated to the regional libraries as part of the annual reporting process and to the Department via the Provincial Librarian's performance management process. Our review of the annual goals and objectives indicated that they support those of the Department.

3.54 *Roles and responsibilities* - The Libraries Act establishes very broad responsibilities for the Nova Scotia Provincial Library. The Provincial Library is to coordinate the activities of Provincially-funded libraries, establish and provide for the orderly operation of Regional Public Libraries and provide support services to libraries in the Province. It has been providing these services for over 50 years. NSPL management believe NSPL and Regional Library Boards are clear on their respective roles.

3.55 *Performance reporting and monitoring of operations* - The Nova Scotia Provincial Library prepares an annual report which is usually published before the end of the following fiscal year. The report is available on the Provincial Library website, as well as in print. This reporting within 12 months of the fiscal year-end is reasonably timely and the Nova Scotia Provincial Library should continue to work towards producing the report as soon as possible after year end.

3.56 The report contains statistics of Provincial Library expenditures and services. It does not, however, measure these against budget plans or expected levels of activity. The report includes statistics on Regional Library Board outputs and funding which provide a basis for comparison between Boards.

3.57 *Disclosure of objectives and goals* - In 1995 we recommended that the NSPL annual report include information on goals and objectives for current and future periods, as well as results for the current year. Our review of NSPL's 2000-01 Annual Report indicates that although the Report does disclose high-level initiatives, specific goals and objectives are still not being reported.

3.58 The Provincial Library monitors the workloads of its cataloguing and acquisition units on a weekly basis. This is to allow for workflow adjustments if processing and turnaround times are not being achieved. The monitoring is for Divisional use only.

3.59 *Reporting from RLBs* - NSPL requires annual reporting from Regional Library Boards on achievement of standards. The statistics reported (e.g., size of collection, total staff FTEs, etc.) are tracked over time and against established standards of service for Nova Scotia public libraries. In addition, the Department requires that the RLBs provide audited financial statements.

3.60 *Long-term planning* - A three-year funding arrangement for Regional Library Boards was implemented in 1995-96. Regional Public Library Funding Review Committees in 1994, 1998 and 2000 each prepared reports with three-year funding recommendations, all of which were accepted by the government. During this period, Boards performed long-range planning activities. However, in recent years previously agreed-upon three-year funding levels have not been approved during the Estimates process. The Regional Library Boards indicated that government's return to annual funding allocations has reduced the focus on long-term planning.

3.61 *Testing of grants* - A small sample of 2001-02 grants to Regional Library Boards was selected for testing. We recalculated the grants in accordance with the current funding formula. For the sample tested, the Regional Library Board grants were determined in accordance with the established funding formula.

Private Career Colleges

3.62 The Private Career Colleges Division of the Department of Education registers and monitors private career colleges under the Private Career Colleges Act and Regulations enacted in 1999. We last audited this Division in 1996 and concluded that the practice of registering non-trade schools exceeded the regulatory authority defined in the Trade Schools Regulation Act. In 1998 Bill 38, An Act to Regulate Private Career Colleges, remedied this deficiency.

3.63 The Division's actual net expenditures in 2001-02 were $0.4 million (see Exhibit 3.2) and it has a full-time staff complement of five. Although the expenditures are not significant, the Division's responsibilities for licensing and regulating private career colleges are very important.

3.64 *Divisional plans* - The Private Career Colleges Division does not prepare annual priorities, goals and objectives. Divisional management have indicated that the goals and mandate of the Division are clearly documented in the Private Career Colleges Act and Operations Guide which eliminates the requirement for formal annual Divisional plans. We believe that annual operational plans would assist the Division in setting and achieving specific goals for the period.

3.65 *Roles and responsibilities* - The Private Career Colleges Regulation Act sets out the role of the Manager of Private Career Colleges. The primary role is to review applications for registration. The Division has prepared an Operations Guide which reinforces the role and provides more detail on responsibilities. The Guide also clearly documents the roles and responsibilities of the private career colleges.

3.66 *Performance reporting and monitoring of operations* - The Private Career Colleges Division does not issue an annual report, nor is it included in other annual reports of the Department. An annual report would improve accountability for operations and results achieved.

Recommendation 3.7

We recommend that the Private Career Colleges Division prepare an annual report on its operations and results for inclusion in the Annual Report of the Department of Education.

3.67 *Performance standards for private career colleges* - Our 1996 audit revealed that the Division was not monitoring performance and outcome measures for trade schools (i.e., graduation rates or employment rates). The Private Career Colleges Division currently monitors graduation rates, as all registered colleges must report on the academic success of students.

3.68 *Industry reviews* - All private career colleges are required to have an industry review of program curriculum as part of the registration process. The Operations Guide provides clear direction to private career colleges on who is qualified to perform the review. The Division does not have a formal documented process for assessing the acceptability of the reviewer. However, the Division performs this assessment and has challenged the acceptability of some industry reviewers. To ensure that industry reviews are objective and accurate, we believe the Division should institute formalized procedures to assess both the qualifications of the reviewer and relationship with the school being reviewed.

3.69 *Frequency of inspections and audits* - Section 23 of the Private Career Colleges Regulation Act allows for a Ministerial designate to inspect private career colleges to ensure compliance with legislation. Since our 1996 audit, the Private Career Colleges Division developed a policy establishing the frequency and scope of these inspections. The Private Career Colleges Operations Guide states that "*representatives of the PCC Division will conduct an annual inspection at private career colleges*" and describes what is involved. Based on our review of a sample of completed inspections in 2001, the Division is conducting inspections which are consistent with the policy. However, management has informed us that in 2001 the Division experienced a staff shortage, so only 19 of the 51 registered career colleges were inspected. The Division has since hired two additional inspectors and an operational plan for inspecting all career colleges by the end of 2002 is in place.

3.70 *Sufficiency of bond documentation* - Every private career college must provide a surety bond or irrevocable letter of credit as a condition of registration. Surety bonds expire yearly. The required amount of the bond is determined by multiplying tuition cost by the number of students attending the college, to a maximum amount of $75,000. Testing of a sample of four college files revealed the required bond was provided.

3.71 *Training completion fund* - Section 33 of the Private Career Colleges Regulation Act establishes a training completion fund. The purpose of the Fund is to provide for the completion of training, as contracted by students, in the event of college closure due to insolvency. The registered private career colleges submit payments in the amount of 1% of all tuition collected. As at March 31, 2002 the fund balance was $301,676.

3.72 *Inadequate financial review* - One mandate of the Division is to "*ensure that students' interests are being protected as recipients of training programs.*" By registering only financially stable career colleges, the Division attempts to ensure students can complete their training programs without the worry of institutional insolvency. A detailed financial statement review of all registered colleges is an important step in protecting students' interests. However, our audit indicated that the Division's financial statement review and analysis procedures are not documented and are insufficient. Furthermore, financial statements are not required to be audited. An audit would help to ensure that financial information is accurate and reliable. Audited financial statements are not currently required by the Regulations under the Act. Implementing such a requirement would require a change in Regulations. The Department does not provide funding to the colleges. Because there is a cost associated with audits, the decision to require audited financial statements is more complex than for other programs where the Province provides the funding.

Recommendation 3.8

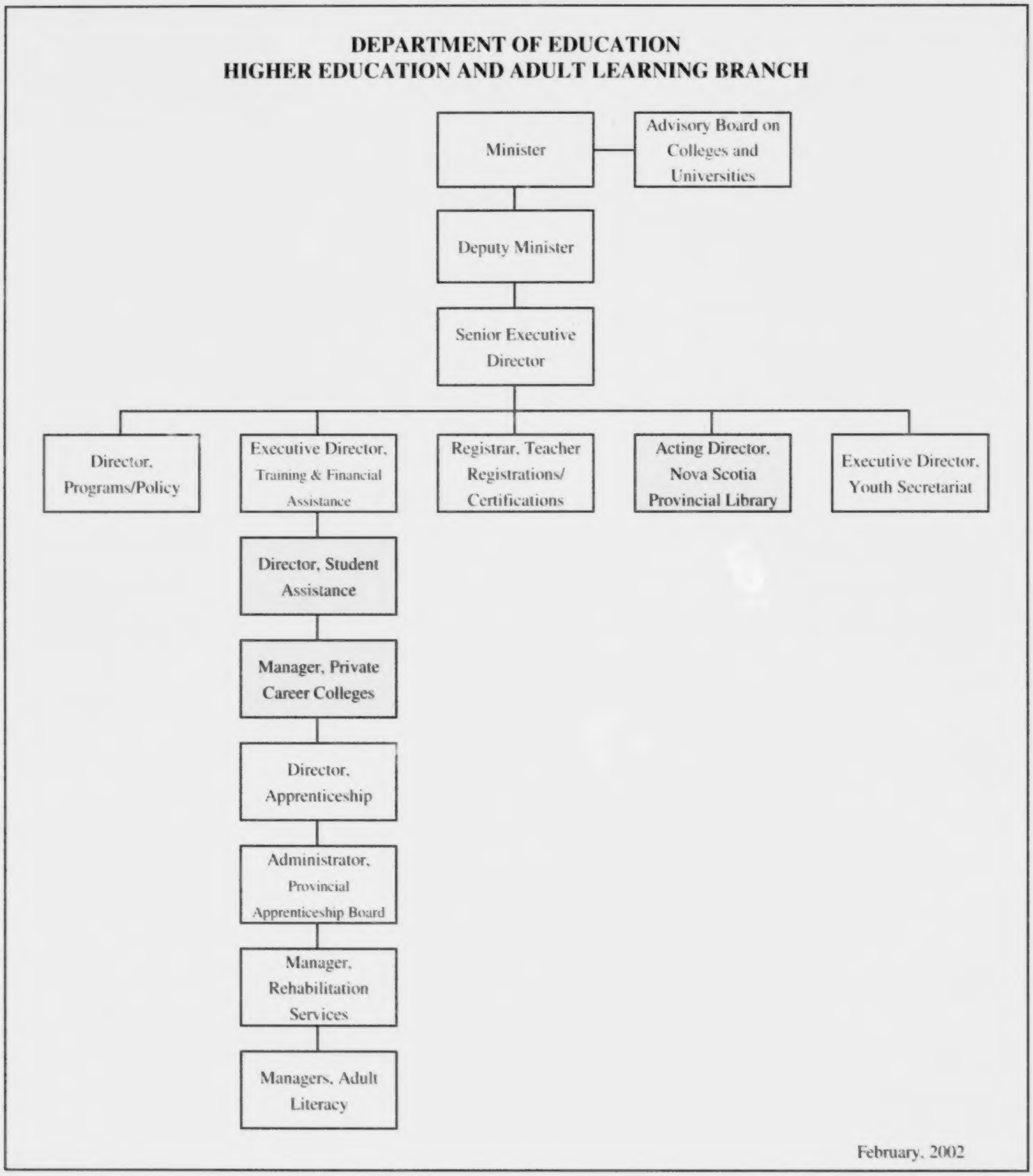
We recommend that the Private Career Colleges Division increase the number of annual inspections to comply with its inspection policy, and improve its procedures for documenting reviews of College financial statements.

CONCLUDING REMARKS

3.73 Since our last audit of the Student Assistance Program, two significant changes have taken place. The first change is that the Province now guarantees student loans and assumes the risk of default. The second change is that applicants are no longer required to submit documentation of income on a routine basis. Both of these changes significantly increase the Province's risk related to this program. The absence of a long-term plan for the Program also increases the risk. To effectively control and manage the program in the future, especially with the uncertain involvement of the Royal Bank of Canada, the Department needs to improve management of this Program. Required improvements include better planning, analysis of risks, and improved information systems to provide timely, useful information.

3.74 Two of the most important elements in any accountability relationship are planning, and reporting on performance. Operational planning in all three Divisions audited needs to be improved, as does reporting to the House of Assembly and public on the performance of the Student Assistance and Private Career Colleges Divisions.

Exhibit 3.1



DEPARTMENT OF EDUCATION
HIGHER EDUCATION AND ADULT LEARNING BRANCH

Minister
Advisory Board on Colleges and Universities
Deputy Minister
Senior Executive Director
Director, Programs/Policy
Executive Director, Training & Financial Assistance
Registrar, Teacher Registrations/ Certifications
Acting Director, Nova Scotia Provincial Library
Executive Director, Youth Secretariat
Director, Student Assistance
Manager, Private Career Colleges
Director, Apprenticeship
Administrator, Provincial Apprenticeship Board
Manager, Rehabilitation Services
Managers, Adult Literacy

February, 2002

Note: Shaded boxes are those Divisions focused on during the audit

Exhibit 3.2

HIGHER EDUCATION AND ADULT LEARNING BRANCH

EXPENDITURES
(In $000's)

	2001-02	2000-01
Administration	$ 156.0	$ ---
Nova Scotia Advisory Board for Colleges and Universities	215.6	421.1
Student Assistance	13,347.1	20,391.6
Rehabilitation Programs and Services	2,009.5	1,062.3
Private Career Colleges	391.1	544.7
Career and Transition Services	---	900.6
Teacher Certification	167.2	261.9
Nova Scotia Provincial Library	1,461.2	1,534.4
Branch Total	**$17,747.7**	**$25,116.6**

Source: SAP

Note: The expenditures above are as reported in SAP for the Branch. The Branch is also responsible for the grants to Regional Library Boards (2001-02 - $10.0 million, 2000-01 - $9.9 million), Community Colleges (2001-02 - $64.3 million, 2000-01 - $58.8 million) and Universities (2001-02 - $201.7 million, 2000-01 - $203.5 million).

Exhibit 3.3

GRANTS TO REGIONAL LIBRARY BOARDS

	2001-02	2000-01	1999-2000
Annapolis Valley	$1,211,000	$1,198,809	$1,164,184
Cape Breton	1,525,501	1,510,132	1,466,514
Colchester - East Hants	844,999	836,464	812,306
Cumberland	408,200	404,085	392,414
Eastern Counties	589,099	583,334	567,059
Halifax	2,974,701	2,944,884	2,859,823
Pictou-Antigonish	824,400	816,108	792,536
South Shore	724,200	716,964	696,257
Western Counties	860,900	852,223	827,607
Regional Library Boards	**$9,963,000**	**$9,863,003**	**$9,578,700**

Source: SAP

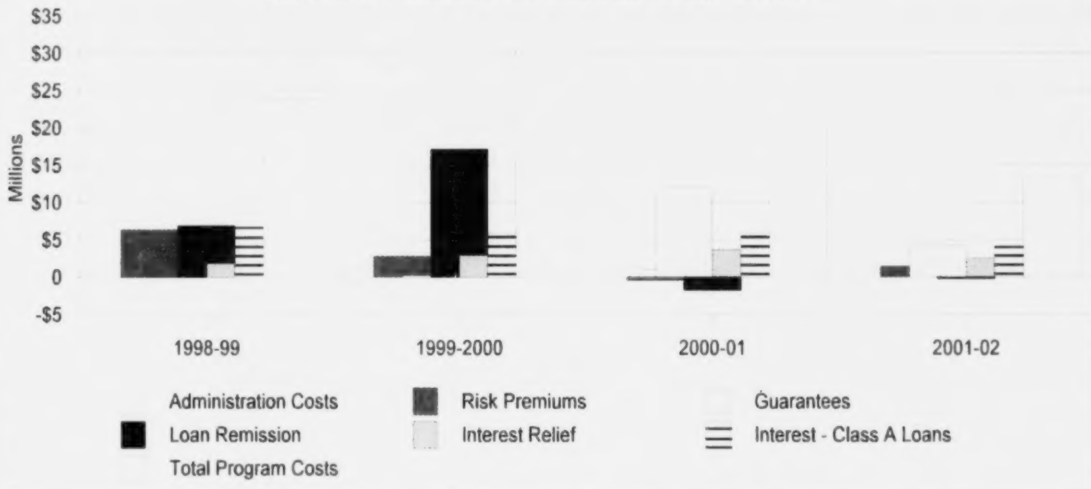
Exhibit 3.4

STUDENT ASSISTANCE DIVISION - SUMMARY OF KEY STATISTICS ACADEMIC YEAR ENDED JULY 2002

	NSSL	CSL
Maximum Student Loan (34 week program)	$ 5,100	$ 5,610
Average Student Loan	$ 3,783	$ 5,165
Number of Loans Approved	10,233	18,340
Value of Loans Approved	$ 38,712,783	$ 94,719,430
Portfolio Balance - Interest Free Status July 31, 2002	$ 82,811,824	N/A

Note: Unaudited amounts provided by Student Assistance Division.

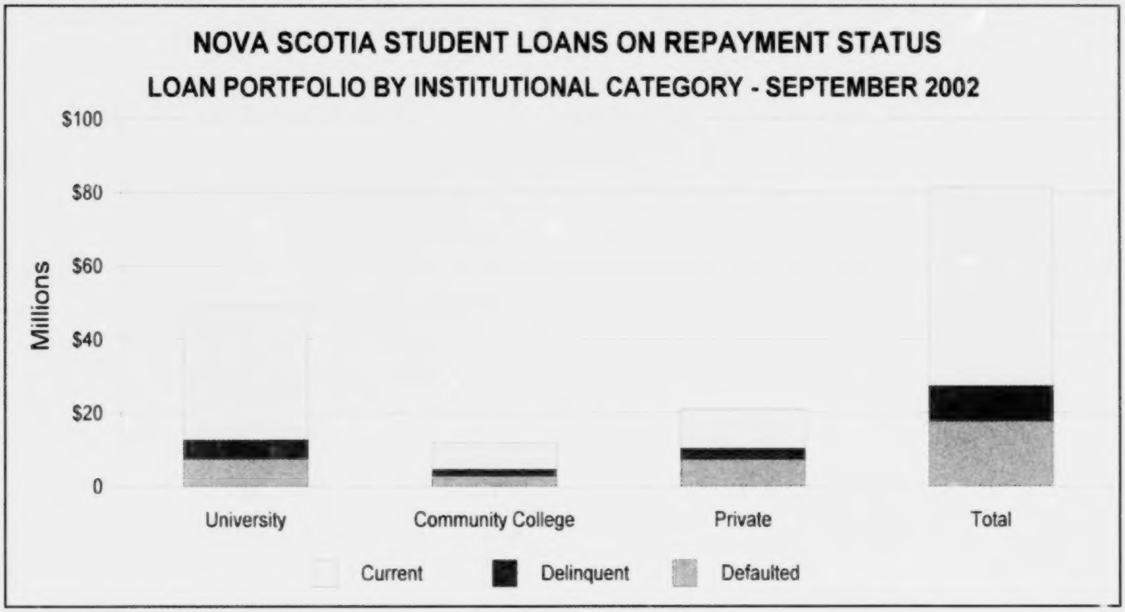
Exhibit 3.5



NOVA SCOTIA STUDENT LOAN PROGRAM COSTS BY MAJOR PROGRAM COMPONENT

Source: SAP

Exhibit 3.6



Source: *Unaudited amounts provided by Student Assistance Division.*

Note: *Defaulted loans are those loans written off by the Royal Bank of Canada in the last 18 months.*
Delinquent loans are loans 60 days or more in arrears (and not written off).
Loans on interest relief of $20.6 million are excluded as they are not on repayment status

Exhibit 3.7

STUDENT ASSISTANCE DIVISION
FOLLOW-UP OF ISSUES IDENTIFIED IN 1997 REPORT OF AUDITOR GENERAL

Program Component	Issue Reported in 1997 Annual Report	Current Status
Interest charged by bank	**10.24** - Tolerances accepted as "normal" in Department's edit checks on interest billings received from banks are too broad (twice the estimated amount).	Currently the same, but soon to be reduced to 25% variance.
Interest Relief Program which provides an additional 30-month interest-free period	**10.33** - Student Assistance Office could not tell us the actual value of the loan portfolio on repayment status at March 31, 1997 because this information is not reported by the banks. It is difficult to estimate the exposure of the Province to interest relief claims.	Student Assistance now receives this information from the bank.
Loan Remission Program whereby a portion of a student's loan will be repaid by the Province, upon successful completion of the year's studies, to the extent that the loan for the year exceeds a predefined maximum debt level	**10.31** - No disclosure in the financial statements of the Province of the exposure to additional expense for loan remission claims. Loan remissions are recorded in the year claims are approved.	Program ended March 31, 2000.
A **risk premium of 5%** of the amount of loans awarded, payable to the bank by the Province, to compensate the bank for assuming the risk of default by the borrower	**10.29** - The Department is recording the risk premium liability as it is billed by the bank when the loan goes to repayment status. We recommended that the liability be recognized when the loans are issued.	The Province still pays risk premiums (now 10%) to the bank for those loans issued prior to August 1, 2000 and coming into repayment status subsequent to that date. The Province recognizes the risk premium liability for all loans negotiated prior to August 1, 2000. As of August 1, 2000, the Province fully guarantees student loans. The Department now estimates the liability for defaulted student loans based on loans issued after July 31, 2000.

DEPARTMENT OF EDUCATION'S RESPONSE

The Department acknowledges the overall findings of the recent audit of Student Assistance, Nova Scotia Provincial Library and Private Career Colleges Divisions of the Higher Education Branch (formerly Higher Education and Adult Learning Branch).

The Report identifies a number of areas for improvement including the implementation of a Branch and individual division operational plans, formal reporting of measures and outcomes, the development of a model to determine the Province's exposure for defaulted Nova Scotia Student Loans (NSSL), the development of a formal audit process in Student Assistance and increased inspection of colleges by the Private Career College Division. The following observations are made and where appropriate actions will be undertaken:

3.1 *Development of a model to determine exposure for defaulted student loans - Prior to August 1, 2000, the Province paid a risk premium to lenders at the point that loans were consolidated. Because of this limited risk exposure, the Province did not require detailed information on the portfolio in repayment. Because the Province is now responsible for the full cost of loan defaults, the Department has recently contracted a consultant to extract and analyse NSSL data from Royal Bank's database. Once completed, this data will be available to input into a risk model. In addition, approval has been given to re-engineer the Student Assistance computer system which will greatly enhance the Department's ability to extract and analyse data. The Department's Corporate Services and Student Assistance staff will work toward developing a model during the second half of 2003 following the completion of the consultant reports.*

3.2 *Increased audit and verification of information on student loan applications - Because of the changes in business processes that have been taking place in Student Assistance, the Division is also restructuring. An assistant director for financial management is being hired. This position will have responsibility for auditing and will develop a formal audit plan during the first quarter of 2003. Preliminary discussions have already taken place with Canada Customs and Revenue Agency with the intention to have an agreement to allow the Province access to income tax information in place for the 2003-04 processing year.*

3.3 *Branch operational planning and reporting - The HEAL Branch has undergone significant restructuring over the last two years and has recently been separated into two new branches, Higher Education Branch and Skills and Learning Branch. The new Higher Education Branch will undertake a strategic planning process in the first quarter of 2003.*

3.4 *Private Career Colleges Division*

A. *Inspection of private career colleges - The Private Career College Division was unable to meet its target of annual inspections in 2001-02 because of staff shortages. The Division is now fully staffed and, by Dec. 13, 2002, every registered college will have been inspected for the 2002-03 registration year.*

B. *The Department does not share the Auditor's observation on the current system of industry reviews. The Department believes that the process set out in the Operations Guide is satisfactory.*

C. *The Department acknowledges the recommendation with respect to financial reporting by private career colleges and looks forward to receiving guidance on documenting reviews of financial statements from private career colleges from the Auditor General.*

4.

EDUCATION - REGIONAL SCHOOL BOARDS' PROPERTY SERVICES EXPENDITURES

BACKGROUND

4.1 The management of school facilities in Nova Scotia is a massive undertaking. In 2001-02 there were 466 public schools in operation with an estimated replacement cost of $1.7 billion. Regional School Boards (RSBs) spent $82.1 million (see Exhibit 4.1) on the 22.8 million square feet (see Exhibit 4.2) of school and administration buildings for which they are responsible. RSB property services expenditures in 2001-02 ranged from $404 to $778 per student or $2.72 to $3.93 per square foot (see Exhibits 4.4 and 4.3).

4.2 Since June 2000 the Province has approved $298.8 million in capital funding for 20 new schools and 198 existing schools. The level of capital spending for new school construction is related to the condition of existing school facilities. The frequency of repair and replacement depends on a number of factors such as school usage, quality of original components, and exposure to the environment. Furthermore, the rate of school replacement increases when inadequate maintenance regimes are in place. The useful life of a typical school is considered to be twenty-five to thirty-five years. However, with proper maintenance and timely refurbishing, a school's expected useful life can be extended.

4.3 Internal Department of Education reports indicate a serious deferred maintenance problem in the Province's public schools. The cost of this deferred maintenance is estimated by the Department of Education to be $500 million. Deferred maintenance can lead to serious issues such as air quality and other environmental problems, and may result in an inability to use the building for educational purposes. Ultimately, deferred maintenance can lead to the need to replace the building.

4.4 The following sections of the Education Act make it clear that Regional School Boards are responsible for the day-to-day operations and maintenance of public school buildings. Major renovations and construction of new schools are the responsibility of the Province. Section 64(2) of the Education Act states

> *"A School Board shall, in accordance with this Act and regulations, ... (ac) supervise capital expenditures; (ad) provide and pay for adequate equipment and furnishings for public schools and for the maintenance and operation of equipment, furnishings and school buildings; (ae) manage, maintain, repair and keep safe all real and personal property owned, leased or used by the board."*

Section 88(1) states

> *"Where the Minister has received a report pursuant to the regulations and the Minister is satisfied that it is necessary to acquire property or to construct, purchase, alter, add to, improve, furnish or equip buildings or other work for public school purposes, the Minister may, with the approval of the Governor in Council, (a) acquire property for such consideration and on such conditions as the Minister may deem proper; (b) construct, alter or add to buildings or other works for school purposes; or (c) furnish and equip such buildings, and all expenditures for such purposes shall be paid by the Province."*

4.5 In order to understand the property services functions, the reader should be familiar with the following terminology.

- *Property services costs* are the costs to operate and maintain school facilities.
- *Operating costs* are the regular day-to-day expenditures (e.g., custodial salaries, supplies and utilities).
- *Maintenance expenditures* relate to the activities that keep the school operating at an optimal level within the current life cycle of the building (e.g., electrical, carpentry, mechanical and painting).
- *Deferred maintenance* is the backlog of major maintenance projects unfunded in operating budgets and deferred to a future business cycle.

4.6 Paragraphs 5.30 to 5.37 in Chapter 5 of the 2000 Report of the Auditor General discussed the Department of Education's approach to Regional School Board funding. The current approach is generally the same as it was in 2000 with the majority of formula funding being unrestricted or global in nature (i.e., the Boards can allocate total funding through budget processes to various expenditure categories, including property services costs, without restriction).

4.7 The Department also provides restricted funding for the more significant major maintenance projects, as well as new construction, additions and alterations - work which will be capitalized in the Province's accounts. The projects funded are suggested by the Regional School Boards and approved by the Department. Usually, Boards manage the major maintenance projects and the Province manages the new construction, addition and alteration projects.

RESULTS IN BRIEF

4.8 The following are our principal observations from this audit.

- The current system of funding property services expenditures and major capital construction and renovation does not motivate Regional School Boards to invest in preventive maintenance.
- The Department of Education does not currently have an adequate process in place to monitor Regional School Boards' performance in appropriately maintaining schools.
- Regional School Boards are not currently receiving all the information required to appropriately perform their governance functions in the property services area.
- A comprehensive planning process for property services does not currently exist.
- Systems and controls over property services operations are generally informal and require improvement.
- There is a lack of information available to management to use in the planning, monitoring and assessment of property services operations.

AUDIT SCOPE

4.9 The objectives of this assignment were to:

- assess the assumptions supporting the property services budget items;
- review the accountability relationship between the RSBs, RSB management, and the Department of Education;

- assess the sufficiency of information being received by the Department from the RSBs supporting the maintenance of facilities with due regard for economy and efficiency;
- determine whether Regional School Boards' management processes, operational systems, and practices over property services operations and capital expenditures help to achieve due regard for economy and efficiency;
- assess whether RSBs' efforts are directed to improving efficiency of property services operations;
- determine if the RSBs' property services and capital expenditures are made in compliance with the Government's Procurement Policy (ASH sector);
- assess whether the information management systems and processes supporting RSB property services operations and capital expenditures are adequate;
- document the process supporting the acquisition and implementation of the MegaMation Directline Maintenance Software.

4.10 The audit criteria were taken from recognized sources including the Canadian Institute of Chartered Accountants' *Accounting Handbook* and *IT Guidelines*, and the Office of the Auditor General of Canada's *Auditing of Efficiency*, *Financial Management Capability Model* and *Modernizing Accountability Practices in the Public Sector*.

4.11 Our audit included an initial survey document sent to all seven Regional School Boards, followed up with field visits to the Annapolis Valley (AVRSB), Cape Breton-Victoria (CB-VRSB) and Halifax (HRSB) Regional School Boards. Our audit included examination of policies and procedures; contracts and agreements; business and operational plans; 2002-03 budgets and a sample of procurement files; as well as interviews with RSB management and staff, governing Board Chairpersons and appropriate sub-committee Chairpersons at the Boards visited.

4.12 Examination of documents at the Cape Breton-Victoria Regional School Board was somewhat limited due to a fire on September 13, 2002 that destroyed the Support Services building and contents.

PRINCIPAL FINDINGS

Introduction

4.13 To fulfill its responsibilities for funding Regional School Boards' property services expenditures and major construction of school buildings, the Department of Education requires certain performance information about Board operations:

- Information on the condition of school buildings, including requirements and plans for minor and major repairs and construction
- Information on performance, and compliance with legislation and policies
- Information on whether RSBs' property services operations have been managed with due regard for economy and efficiency

4.14 In addition to information required by the Department of Education, there are certain key elements required in each Regional School Board to properly manage the property services function. These are:

- An effective governance function
- Long-range and operational planning
- Management systems to control and monitor operations
- Project management systems
- Information systems

Our principal findings are listed below under the above headings.

Overall Comments

4.15 The division of responsibilities between Regional School Boards and the Department of Education for funding the day-to-day operations and maintenance of public schools, as opposed to major renovations and construction of new schools, has the potential to make expenditures on preventive maintenance and other discretionary maintenance items a low priority. The Province is responsible to improve the building and possibly construct a new facility if the existing building is beyond maintaining.

4.16 The responsibilities of the Department of Education and Regional School Boards are contained in the Education Act and Regulations. The Minister of the Department has certain responsibilities - primarily to finance capital construction and provide annual funding. This responsibility seems to be well understood by all parties - the Department, the governing Boards and Regional School Board management and staff.

4.17 In many situations the Department acts as a facilitator or coordinator in bringing the RSBs together to identify and share common needs and best practices. The Department supports across-the-board initiatives but allows the Boards autonomy in managing property services operations. The Department does not set standards or guidelines but makes Boards aware of possible standards and guidelines and allows each Board to determine a workable approach.

I. Information Required by Department of Education

Information on Building Condition

4.18 Section 7(3) of the Governor in Council Regulations to the Education Act states

> *"Each school board shall, at least annually, determine whether the buildings used for school purposes, and the equipment in them, are adequate to provide for the students to be enrolled in the ensuing school year or years."*

4.19 Although there is no annual report either to the governing Board or to the Department of Education noting the adequacy of each school building, from our discussions with Property Services management and staff in the Boards we visited, there is continuous assessment of building inadequacies by teaching, custodial and maintenance staff. One Board manages the list of inadequacies by creating and scheduling work orders for a future time. Building assessments were also part of the process used by all three Boards in the development of school capital construction requests to the Department.

4.20 The Regional School Boards do not regularly report building condition information to the Department of Education. Section 7(4) of the Governor in Council Regulations under the Education Act states

> *"Each school board shall report to the Minister a) the extent to which it is necessary to erect, acquire, purchase, alter, add to, improve, furnish or equip buildings for school purposes or barrier-free access, or to acquire land therefor; b) the extent to which the cost may be provided from the board's annual budget for capital expenditure, repair and renovation, including any accumulated surplus..."*

4.21 Such reports are usually only prepared upon request by the Department as part of its planning for specific school capital construction. We believe that reporting information on service levels, building condition and deferred maintenance would give the Department of Education better information for decision making. Subsequent to our fieldwork, HRSB management informed us that the Board made a formal request to the Department to assist in the funding of a joint project for a comprehensive evaluation of HRSB school buildings.

Recommendation 4.1

We recommend that the Department of Education work with Regional School Boards to establish a protocol for reporting on the condition of school buildings.

Information on Performance, and Compliance with Legislation and Policies

4.22 There is no formal system in place to monitor Regional School Boards' compliance with Department of Education legislation and policies regarding property services. No information on RSB performance is submitted to the Department, and there are no established service standards. Such standards would be useful in measuring and reporting on performance. Reports on whether service standards are achieved with current funding would be useful information for the funding process.

Recommendation 4.2

We recommend that the Department of Education work with Regional School Boards to establish service standards for property services operations and a process for reporting on achievement.

Information on Whether Property Services Operations Have Been Managed with Due Regard for Economy and Efficiency

4.23 *Expenditure reporting* - Regional School Boards are required to provide annual audited financial statements to the Department of Education. The Department collects and records this information but does not routinely analyze property services expenditures in any detail. As noted above in paragraph 4.6, formula funding is global and there is no requirement for the Department to ensure that a certain portion of the funds provided have been spent on property services.

4.24 For the more significant major maintenance projects, Boards are required to provide an accounting of costs to the Department prior to reimbursement. This process was improved for the projects funded in 2002-03 to ensure timely reporting. There are no reporting requirements for Boards for new construction, addition and alteration projects as these projects are managed by the Province.

Recommendation 4.3

We recommend that the Department of Education develop a process to assess whether Regional School Boards are maintaining schools appropriately. This process should consider compliance with legislation and policies, and due regard for economy and efficiency.

II. Requirements at the Regional School Board Level

Governance

4.25 *Structure* - Survey responses from the Regional School Boards indicate that of the seven Boards in the Province, only two currently have Board sub-committees with a primary mandate related to property services issues. The remaining Boards either assign this responsibility to committees with several responsibility areas or to committee of the whole. Our audit work indicated that property services issues are given little attention by committees with broader mandates.

> ***Recommendation 4.4***
>
> *We recommend that Regional School Boards review committee structures to determine whether a separate committee dedicated to property services would enhance governance of the function.*

4.26 *Roles and responsibilities* - The roles and responsibilities of Regional School Boards are detailed in the Education Act and in the terms of reference for sub-committees. Based on interviews with Board members and review of sub-committee terms of reference, the roles and responsibilities of the Boards in the property services area are documented and appear to be well understood.

4.27 *Reporting and information requirements* - Reporting to the sub-committees by management tends to include monthly budget variance explanations, general activity reports for the period, status reports on capital projects, and updates on current issues. Board members interviewed indicated that the current level and type of information reported by management was appropriate and sufficient for their needs. If Board members required additional information from management, they indicated it was provided in a reasonable amount of time.

4.28 None of the Boards we visited had formally documented information requirements from management. Based on our Office's review of reports provided to Boards, and through discussions with Board members, it does not appear that Board members are currently receiving the type of information that would allow them to adequately assess the effectiveness and efficiency of management's use of financial resources in the property services area. The following are examples of information which Boards are not currently receiving but we believe members should receive:

- reports on status of projects including percentage completion, costs to date, forecasted total costs and forecasted completion dates;
- formal explanations of variances between budgeted and actual costs; and
- reports of performance in achieving the annual operational plan.

> ***Recommendation 4.5***
>
> *We recommend that Regional School Boards review and document information requirements in the property services area to help ensure they are receiving sufficient, appropriate information to properly fulfill their roles and responsibilities under the Education Act.*

4.29 *Committee member expertise* - The Education Act requires that Regional School Board members be elected by the general public. Board sub-committees are formed from those elected members who offer their services to the committee. As a result, Board members with specific property services experience may not serve on the sub-committee. We noted through our interviews with Board members and the examination of the employment and educational backgrounds of sub-committee members that, in some cases, the sub-committee responsible for property services was lacking specific expertise in the area.

Long-range and Operational Planning

4.30 *Business plans* - Under legislation, Regional School Boards are required to develop regional strategic and business plans for submission to the Department of Education. Subsequent to our audit of the Halifax and Chignecto-Central Regional School Boards, reported in Chapter 5 of the 2000 Report of the Auditor General, the Department prescribed the outline, format and time lines for the business plan. It is to include goals, priorities, outcomes, measures and targets.

4.31 We reviewed the 2001-02 and 2002-03 Business Plans of the three Boards visited to identify goals and priorities specific to property services. The Cape Breton-Victoria and Halifax RSBs included goals and priorities specific to property services although both require considerable refinement and development. The Halifax Board even reported its accomplishments against these priorities. The Annapolis Valley Board considers the focus of this document should be on educational issues, and as such has titled the document an Education Plan, not a Business Plan. The Education Plan does not include any references specific to property services. Our discussions with Department of Education management indicate that the Department performs very little analysis of these plans with respect to property services expenditures.

4.32 *Budgeting* - Through the budget process Regional School Boards are responsible for allocating global funding among various Board priorities. For the past few years, Regional School Boards have generally developed status quo budgets. Status quo budgets emphasize the future cost of delivering the current level of service. This means relatively little change to the staffing levels and programs from one year to the next. Simply stated, budget managers forecast changes in salary figures for known and anticipated contractual increases and adjust other figures based on prior year actual expenditures. The budgets for property services were developed in this manner. See Exhibit 4.5 for the allocation of property services expenditures in 2001-02 for the Boards we visited.

4.33 We have been told by Board management and staff that the governing Boards have made *"putting the money into the classroom"* a priority. Property services expenditures are generally given a lower priority.

4.34 The budget document provided to us by the Halifax Board includes the assumptions used in the development of the budget. The budget documents provided to us by the other two Boards do not include such assumptions, although we have been advised that Board members would be aware of underlying assumptions. To assist in understanding the budget, we believe assumptions should be disclosed as part of the budget document.

4.35 *Operational and preventive maintenance plans* - Property services operational plans should include expected levels of activity, milestones and target dates, resources required, and priorities. Although the Boards we visited had documented plans for the year to some extent, these documents did not include all the elements of formal operational plans. Without formal operational plans it is very difficult to assess whether operational activities are consistent with the goals and priorities established in the Regional School Boards' business plans and long-term capital plans. A properly developed operational plan, reviewed and approved by the governing Board, can also be a very effective accountability tool to be used in assessment of management's economic and efficient use of Board resources.

4.36 None of the Boards we visited had developed formal preventive maintenance plans for the schools and buildings for which they have responsibility. Management indicated that the lack of funds for preventive maintenance has led to the lack of formal planning in this area. Interviews with management indicated that all Boards had informal processes established for regular maintenance of boilers, water treatment plants, fire and security alarms, and filters on ventilation systems and that all regulatory requirements have been met.

Recommendation 4.6

We recommend that a process be established at all Regional School Boards for the development, approval and reporting of annual operational and preventive maintenance plans for property services operations. Assumptions implicit in such plans should be clearly documented.

Management Systems to Control and Monitor Operations

4.37 *Reporting* - None of the Boards we visited required regular formal reporting by staff and middle management to senior management. Management at the various levels interviewed indicated that there was constant informal communication of the status of various projects and potential problems. Both the Annapolis and the Halifax Boards have periodic staff meetings where supervisors and staff share information on project status and staffing issues with senior management. We believe that formal reporting of performance in achieving objectives and plans is necessary to achieve good accountability.

4.38 As noted in paragraphs 4.22 and 4.35, none of the Boards we visited had prepared operational plans or developed performance measures to report against. At the present time the only formal reporting of operational performance appears to be a comparison of actual expenditures to budget including explanations of the more significant variances. Management indicated that a good measure of performance is the number of complaints received from the schools or the public at large. Currently, such complaints are not being tracked and reported upon.

Recommendation 4.7

We recommend that Regional School Boards define performance indicators for the property services function and report on achievement.

4.39 *Controls over inventory* - During our site visits, we reviewed and assessed controls over maintenance materials inventory. We noted that at the Halifax Board the controls in place to ensure the safe guarding of inventory were inadequate. At the time of our visit all maintenance staff had access to the inventory, and although they were required to sign out materials, no inventory counts were taken to reconcile purchases and usage to inventory on hand. Based on our discussions with management at the Board, the requirement to do periodic inventory reconciliations was discontinued when the decision was made to expense materials upon purchase rather than recording as inventory and expensing at the time of usage. The controls over inventory should not be directly related to its treatment for accounting purposes. Controls over material inventory at the other two Boards we visited were adequate.

Recommendation 4.8

We recommend that the Halifax Regional School Board review existing controls over maintenance materials inventory using sound risk management practices, and implement changes as required.

4.40 *Assessment of staff performance and quality of work* - None of the Regional School Boards we visited had formal policies and procedures in place for the assessment of staff performance and quality of work. The Boards currently do not conduct annual performance evaluations on staff although all indicated plans to do so in the future. Boards indicated that quality of work is assessed on an informal basis through visual inspections during site visits. The Cape Breton - Victoria Board has principals prepare quarterly reports providing comments regarding satisfaction with the general custodial and maintenance work performed at the school. In cases where the performance of a particular staff member warrants significant improvement, a formal letter will be issued by management indicating the nature of the problem and a target date for improvements. The Halifax Board indicated it is currently in the process of developing a formal appraisal process and that formal performance management has occurred where necessary. Generally, the systems currently in place by the Boards to assess staff performance and quality of work are informal and need to be formalized if they are to be used to help increase productivity.

> ***Recommendation 4.9***
>
> *We recommend that the Regional School Boards develop a formal process for the evaluation of staff performance.*

4.41 *Management constraints* - Maintenance and custodial staff in all seven Regional School Boards in the Province are unionized and as a result the Boards are bound by the terms of respective Collective Agreements. Typical clauses in the Collective Agreements include no contracting out provisions, standard work days, requirements for full-time caretakers in certain sized schools, down sizing provisions, and no formal performance evaluations.

4.42 The amalgamation of the old District School Boards into the new Regional School Boards in 1996-97 resulted in various staffing levels for maintenance staff being inherited from the old District Boards which may not be the optimum level for the new Regional Boards. Management has recognized this as a problem but, because of Collective Agreement constraints and the lack of resources available for new staff, has limited ability to make necessary changes.

4.43 There have been no significant increases in property services expenditures over the last four years as detailed in Exhibit 4.6. Management has indicated that increases in annual salary costs leave very little in additional funding to be directed toward such areas as preventive maintenance, planning and analysis of service delivery alternatives, and development of information systems. The reality of day-to-day property services operations is that a significant amount of a Board's available resources are used to deal with emergency situations requiring immediate attention. These emergencies require that management use resources originally planned for discretionary areas such as preventive maintenance.

Project Management Systems

4.44 *Maintenance project management* - The operations departments of the three Boards we visited, although varying in size and structure, have responsibility for the repair and maintenance of school and administration buildings. Generally, each Board has maintenance trade staff (electricians, carpenters, and plumbers) responsible for repairs, maintenance of buildings, inspections of fire alarms and security systems, operating water treatment plants, etc. In addition to these ongoing operational requirements, staff and management are required to supervise the work of contractors hired for larger capital projects such as roof repairs, window replacements, and small scale renovation projects.

4.45 Management at the Halifax Board indicated that, on average, 1,300 work order requests flow through property services monthly. Both the Cape Breton - Victoria and Halifax Boards, which are much larger in size than the Annapolis Valley Board, can have as many as 20 or more trades staff reporting to one supervisor. Due to the sheer volume of work order requests, the number of schools and buildings for which the Boards have responsibility, and the large number of trades staff requiring supervision, it is essential that Board management have in place appropriate project management techniques to help ensure that the resources available are being used in the most economic and efficient manner possible.

4.46 *Outstanding work orders and staff supervision* - Trades staff are notified of assignment to specific projects through the issuance of a work order request. All three Boards we visited use the MegaMation software (see paragraph 4.49) to produce the initial work order based on the details in the request. In the Annapolis Valley and Cape Breton - Victoria Boards, staff use the system to record completion of work orders. This allows management at these two Boards to review outstanding work orders and easily access the work order assignments for specific staff at any given point in time. At the Halifax Board, due to limited staff resources, work orders are not recorded as completed in MegaMation. Management indicated they use manual log books to record all work orders issued and completed by staff and to control work assignments and outstanding work orders. The log books presented for our review were incomplete and do not appear to be useful in controlling outstanding work orders or assisting staff in scheduling or monitoring staff.

Recommendation 4.10

We recommend that the Halifax Regional School Board review its current procedures for controlling work orders and staff assignments to ensure they are appropriate and working as designed.

4.47 *Maintenance staff work allocations* - At the present time none of the Boards we visited have established policies or procedures to allocate staff to projects. The development of time standards for typical repair and maintenance jobs would be a useful tool for supervisors to use in allocating resources and assessing the efficiency of completed assignments. Time standards could also be used in the development of operational plans and provide useful information for management when analyzing alternative service delivery mechanisms such as whether it is more economic to do repairs in house or contract out.

4.48 The allocation of staff to work orders in all the Boards we visited is the responsibility of the trades staff person's direct supervisor. Management indicated that, although not formalized, staff are allocated to projects in a manner that provides a wide range of experience for staff, while limiting downtime, such as travel. Management also indicated that much of the work performed results from emergencies and is allocated to the first available trades person. Ultimately, the allocation of staff to projects is based on the supervisors' professional judgement.

Information Systems

4.49 *Maintenance management system* - In 1997, with the phasing out of the Halifax Regional School Board's work order system, the Board, along with the Department of Education and the other Regional School Boards in the Province, worked collaboratively to select a replacement system to be used in all Boards. A committee with representation from all Boards was formed to manage the process. The committee evaluated the bids submitted and chose MegaMation Directline Maintenance software.

4.50 The committee prepared a common contract to be used by each Board when negotiating a contract with the supplier. From this point on, the Boards each negotiated with the supplier and developed an implementation schedule to bring MegaMation into each Board. MegaMation has been in use in some Regional School Boards since shortly after the vendor selection while other Boards have implemented MegaMation more recently.

4.51 Regional School Boards could also decide on which modules of MegaMation to implement. Each Board was to bring in MegaMation with no additional funding from the Province. The Halifax Board uses only the Work Request module to input and print a paper work order. The Annapolis Valley and Cape Breton-Victoria Boards use the Work Request and other modules to input, assign and track the work order until completion. These two Boards also enter labour and material costs for the work order. This allows them to plan and report the status and costs of work orders entered.

Recommendation 4.11

We recommend that the Halifax Regional School Board use its available maintenance management software to track the full costs associated with completion of work orders.

4.52 Subsequent to the introduction of MegaMation, the Department of Education and Regional School Boards agreed to implement a new financial information system (SAP).

4.53 The financial and procurement modules of SAP were implemented on April 2, 2002. Access to the system was limited to those persons who had access to the system being replaced and tended to include only the staff directly involved in the financial accounting and procurement processes. Generally, property services management and staff were not provided access in the initial implementation, although we understand Boards plan to extend access. Property services managers are not able to query the system to determine how they are doing in relation to budget, but must wait for the reports to be generated by their respective finance groups. At the time of our visits to the Regional School Boards in late summer and early fall, not all Property Services managers were receiving accurate budget-to-actual reports on a timely basis. It is unclear whether MegaMation will be replaced by the relevant SAP module.

III. Achieving Economy and Efficiency

4.54 *Operational best practices* - The following is a list of some of the operational best practices observed during our site visits. We believe they should be explored by all Regional School Boards in an effort to use limited resources in the most efficient and economic way possible.

- *Energy management systems* - At the present time, energy management systems at the three Boards we visited are in various stages of implementation. Many schools in the Annapolis Valley RSB have building control systems. Energy management systems are also in place within schools of the former Halifax City District School Board. The Cape Breton-Victoria RSB appears to have the most advanced systems in place in the majority of its schools, and indicated that the Board has realized considerable cost savings as a result of increases in operational efficiency. We believe all Boards should continue to explore the potential benefits of energy management systems.

- *Joint procurement opportunities* - All Regional School Boards in the Province purchase similar types of custodial and maintenance supplies. Other than the Annapolis Valley RSB's joint procurement of certain paper products with the Southwest Board, and the Halifax Board's use of the Provincial tender for certain products, there has been no analysis of cost savings from joint procurement opportunities. We believe joint procurement provides an opportunity for cost savings and suggest these opportunities be explored. We recognize that joint procurement could require more standardization of systems and components in certain areas.

- *Annual maintenance conference* - Representatives from all Regional School Boards in the Province meet at an annual maintenance conference. Topics covered during the 2002 conference included legislation and technical updates, implementation and use of custodial time standards, and innovative ideas implemented by Boards over the year. We see this conference as an effective means by which information between Boards can be shared and encourage its continued existence.

- *Custodial staff allocation and schedules* - Custodial staffing and scheduling efficiencies are achieved when Regional School Boards can accurately determine custodial staffing needs. The use of staffing formulas facilitates this. The Boards we visited use staffing formulas, however, regular use and monitoring is not occurring.

Because Boards vary in size, comparison of Board custodial staffing levels requires calculation of a ratio of area to be cleaned with the number of custodians (full-time equivalents). Exhibit 4.7 shows this ratio by Board and that there are differences among Boards. Such differences might be explained by differences in age of schools, staffing formulas, economies of scale, service levels, etc. We believe that regular review of staffing formulas and comparison among Regional School Boards could lead to more consistency and potentially to cost savings for some RSBs. We believe that Province-wide service standards in this area should be explored.

Recommendation 4.12

We recommend that the Department of Education and Regional School Boards investigate implementation of best practices including energy management systems, joint procurement and custodial staffing and scheduling standards.

4.55 Most Boards use employees to perform the vast majority of property services functions. One exception is the Annapolis Valley Board which uses contracted custodial services at several schools. The Cape Breton-Victoria Board has a practice of using employees to perform the majority of major maintenance projects, rather than contracting out, and hiring casual replacement staff. The Halifax Board contracts out larger projects when in-house resources are not available. At the time of our visit to these Boards, none could provide an analysis showing whether the current manner of providing the service was the most cost effective. Analysis of alternatives should be performed, savings tracked and information shared among Boards.

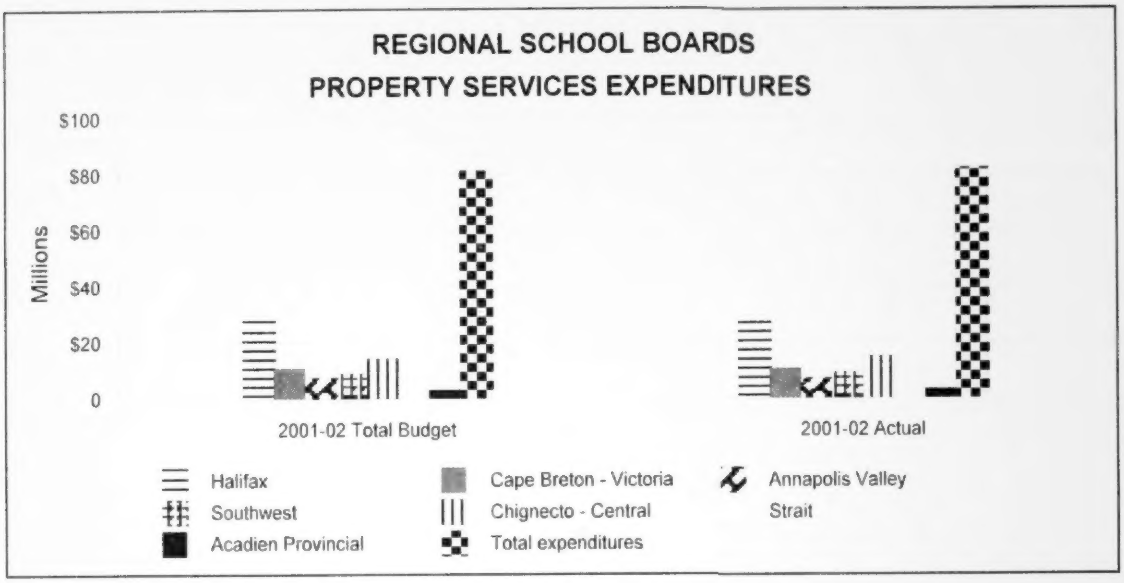
CONCLUDING REMARKS

4.56 The Department of Education's move toward global funding, as well as the current division of responsibility for major capital renovations and construction and ongoing maintenance and upkeep of schools, does not provide Regional School Boards with the motivation to spend limited resources on preventive maintenance and other discretionary property services expenditures. In addition to a system that provides little intrinsic motivation, the Department does not receive information from Boards to allow it to make an adequate assessment of Board performance in managing property services.

4.57 The current systems and controls in the property services operations at the Boards we visited were characterized by informality. There appears to be a fundamental lack of management information available to appropriately plan, monitor and assess the performance of property services operations.

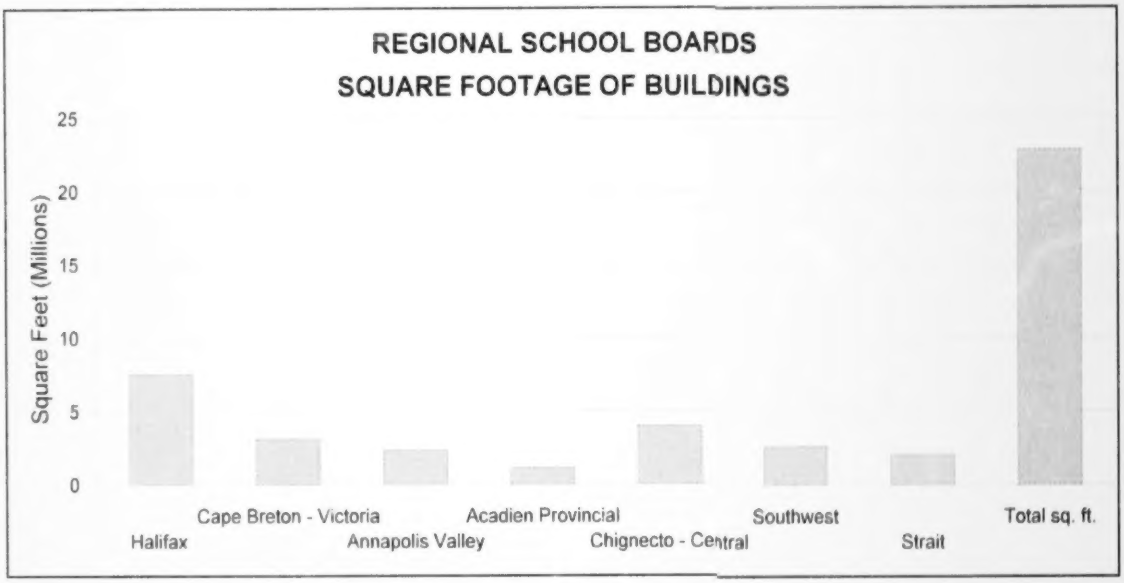
4.58 The Department needs to monitor property services expenditures by Regional School Boards. Poorly maintained schools can lead to health problems, school closures resulting in disruptions to the public school system, and the eventual replacement of schools. The Province has recognized the need to make a significant investment in new schools and renovations to address current poor condition. To ensure the best long-term value for its investment, the Province must also ensure that all schools in the public school system are being appropriately operated and maintained.

Exhibit 4.1



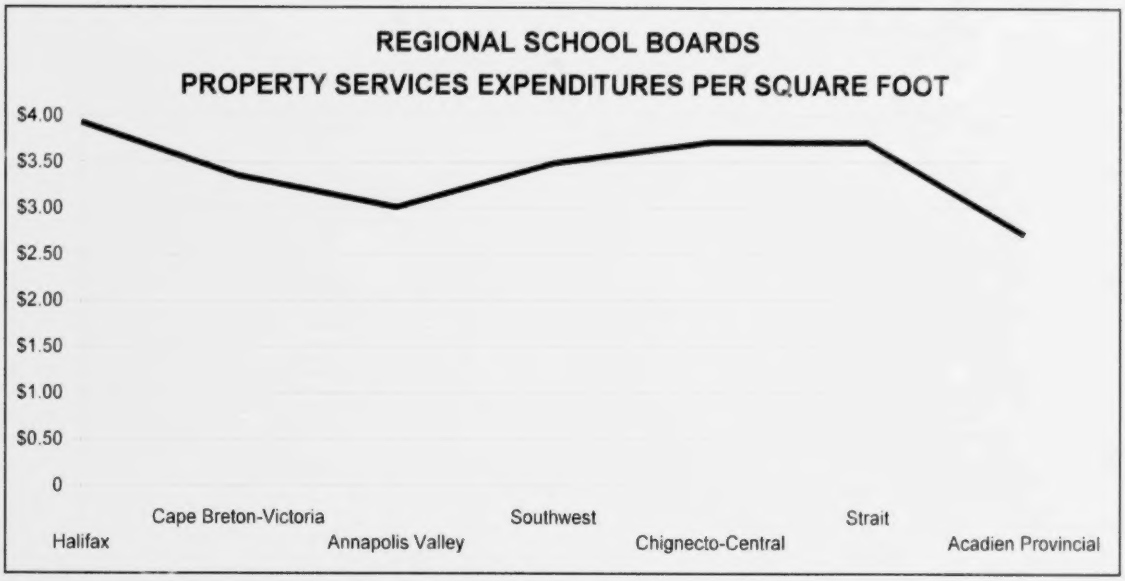
Source: RSBs' 2001-02 audited financial statements.
Note: Conseil scolaire acadien provincial's property services expenditures are unaudited.

Exhibit 4.2



Source: Information provided by Department of Education and not audited by the Office of the Auditor General.
Note: Square footage includes schools, administrative and other buildings.

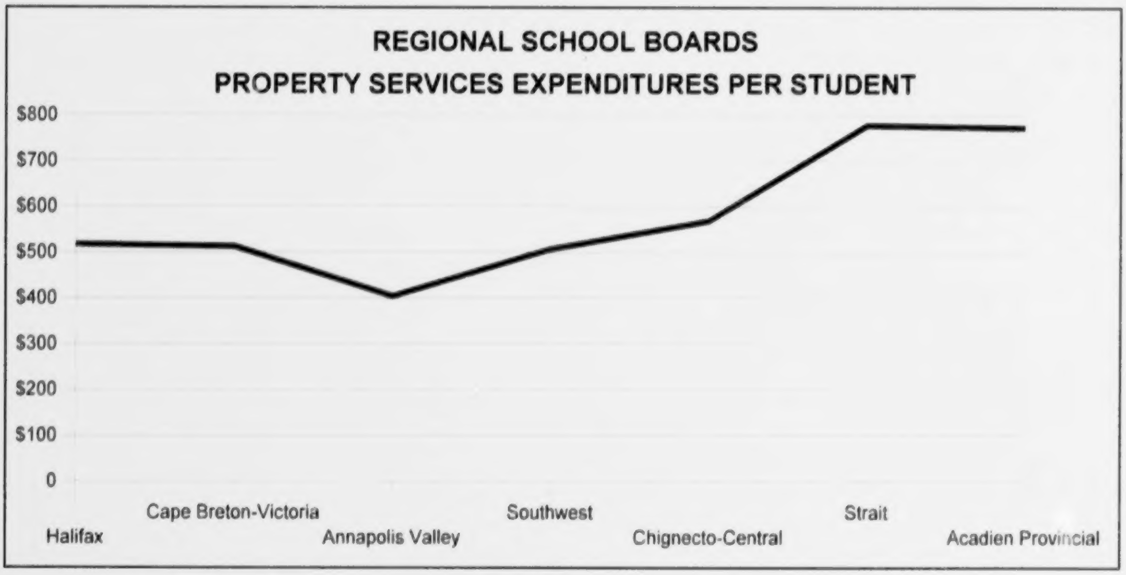
Exhibit 4.3



Sources: *Information provided by Department of Education (not audited by the Office of the Auditor General) and RSBs' 2001-02 audited financial statements.*

Note: *Conseil scolaire acadien provincial's property services expenditures are unaudited.*

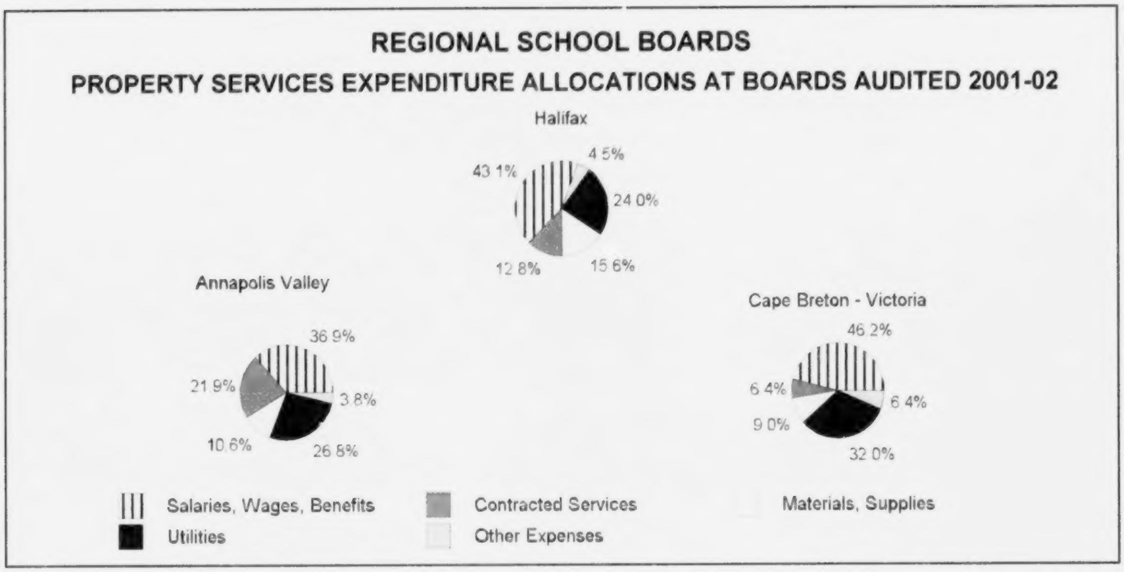
Exhibit 4.4



Source: *RSBs' 2001-02 audited financial statements.*

Note: *Conseil scolaire acadien provincial's property services expenditures are unaudited.*

Exhibit 4.5

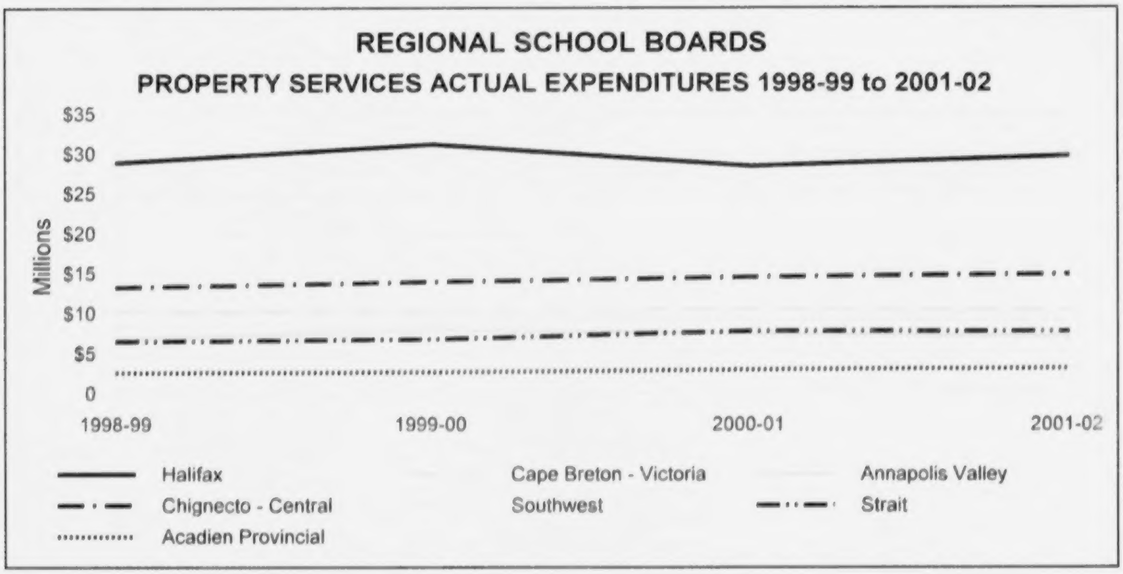


REGIONAL SCHOOL BOARDS

PROPERTY SERVICES EXPENDITURE ALLOCATIONS AT BOARDS AUDITED 2001-02

Source: RSBs' 2001-02 audited financial statements.

Exhibit 4.6

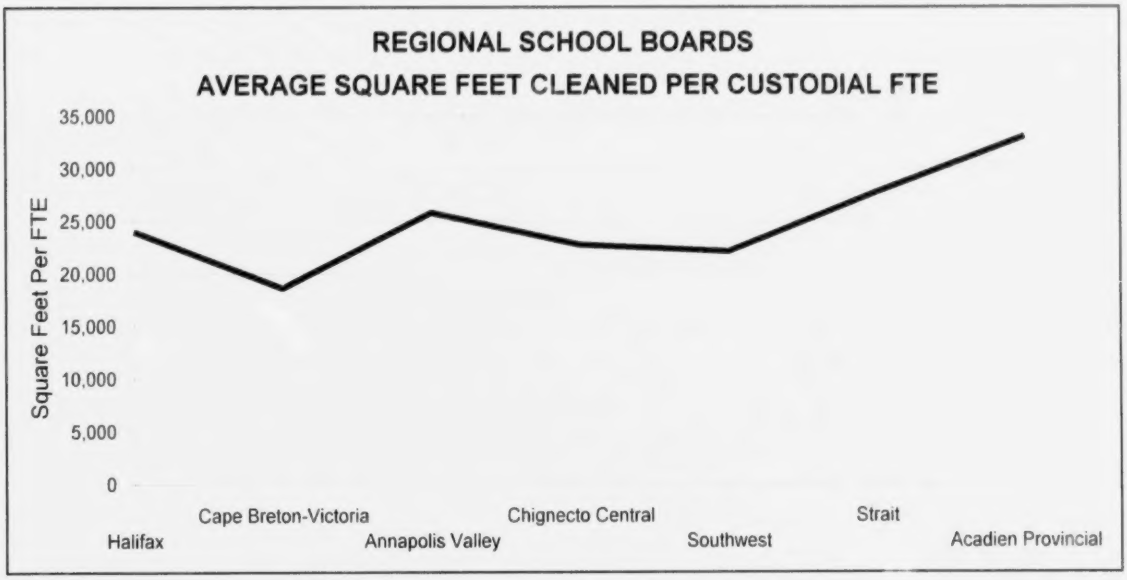


REGIONAL SCHOOL BOARDS

PROPERTY SERVICES ACTUAL EXPENDITURES 1998-99 to 2001-02

Source: RSBs' 2001-02 audited financial statements.
Note: Conseil scolaire acadien provincial's property services expenditures are unaudited.

Exhibit 4.7



Source: Information provided by RSBs and Department of Education and not audited by the Office of the Auditor General.

5.

ENVIRONMENT AND LABOUR - DRINKING WATER SAFETY SYSTEM

BACKGROUND

5.1 There are approximately 1,880 public drinking water supplies in Nova Scotia. Municipal governments operate 82 of these, while the rest are smaller public supplies owned and operated by private or non-profit concerns such as restaurants, camp grounds, schools and nursing homes. Approximately 54% of the Nova Scotia public is served by municipal drinking water supplies. The remainder obtain drinking water from small public supplies or privately-owned supplies, such as wells.

5.2 Responsibility for public drinking water safety is shared. Owners of drinking water supplies are responsible for maintaining the safety of their supplies. The Department of Environment and Labour is responsible for enforcing compliance with water safety laws and regulations. It derives its authority from the Environment Act. However, the Province's responsibility for private drinking water supplies (e.g., wells) does not extend beyond regulating well construction and investigating contamination originating from outside the supply owner's property.

5.3 Historically, public drinking water safety was regulated under the Health Act. Municipal water sampling and monitoring were conducted by Provincial inspectors on a weekly basis. Non-municipal public drinking water supplies were not monitored. In 1995, under the new Environment Act, the Department of the Environment was designated as "*the lead agency of Government*" for water resource management. At the same time, new Regulations came into effect for water treatment and distribution facilities. In 1998 the Department implemented an initiative which required municipal water system operators to monitor their own systems and collect water samples for testing on a daily or weekly basis. The Department discontinued its routine testing of municipal drinking water supplies in 1999 and now, by way of inspection or audit, ensures the required testing is carried out by the supply owner. This change puts the onus on drinking water supply owners to fulfill due diligence requirements and enables the Department of Environment and Labour to focus on its regulatory responsibilities.

5.4 The Department's water supply monitoring Regulations were expanded to include public drinking water supplies not operated by municipalities. The Department defines a public drinking water supply as a water works system for the provision of water to the public for human consumption where the system has at least 15 service connections or serves 25 or more individuals per day at least 60 days of the year. Effective October 1, 2000, public drinking water supply owners – both municipal and non-municipal – are required to have a water quality monitoring program and meet the health-based *Guidelines for Canadian Drinking Water Quality* published by Health Canada.

5.5 The Department of Environment and Labour was created on October 1, 2000 through an amalgamation of the former Departments of Environment and Labour, along with some other government entities. Within the Department, the Environmental Monitoring and Compliance Division is responsible for field operations relating to environmental matters. Activities of the Division include processing applications, inspecting and monitoring approved water supplies, enforcement activities, and responding to public issues and complaints. For operational purposes, the Province is divided into four regions. The Department has a staff of 73 assigned to carry out inspections and other duties related to a variety of environmental matters, of which drinking water safety is one component.

RESULTS IN BRIEF

5.6 The following are our principal observations from this audit.

- The Department released its new drinking water strategy in October 2002. The strategy is based on the principles of sustainability and integrated management, and the premise that everyone has a responsibility to maintain and protect the environment. The accompanying multi-year action plan includes activities that address some of the main components in each of the stages of the multiple-barrier approach.

- Standards exist for the construction and operation of public water supplies, the qualifications of public water supply operators, accreditation of laboratories which test water samples, and the construction of wells. There are no standards for the safe collection, transport and discharge of water by tank trucks for domestic consumption, but draft guidelines have been developed and await approval.

- The Department has adopted Health Canada's health-based *Guidelines for Canadian Drinking Water Quality* as the standard for Nova Scotia public drinking water supplies. Provincial Regulations require public water supply owners to regularly monitor and test their supplies. Municipal water supplies are audited by the Department on a regular basis.

- The Department estimates there are approximately 1,800 public drinking water supplies – other than municipal supplies – that require registration and implementation of a water quality monitoring program. The Department originally estimated that it would have all of the public water supplies registered by October 1, 2002. As of November 5, 2002, approximately two years after the regulatory requirement for registration was approved, there were 1,512 supplies registered.

- The Department has inspected a number of registered water supplies because of the presence of contamination and the release of a boil water advisory. However, there have not yet been any audits of registered water supplies because registration is still in progress. We noted insufficient planning relating to the compliance monitoring process for registered water supplies. The Department has not yet determined how it will carry out the audits, including the procedures and forms to be used. It has not prepared an analysis of how audits of registered supplies will be allocated among various government departments and whether there are sufficient resources available to do the work. The Department has not adequately considered how it will ensure other departments' inspectors are providing sufficient compliance monitoring coverage.

- Departmental requirements for the documentation and follow-up of boil water advisories need to be more closely complied with.

- Responsibility for the enforcement of drinking water safety is clearly set out in legislation and regulations, as well as in policy directives and guidelines issued by the Department to staff. Documented roles and responsibilities are consistent with relevant legislation.

AUDIT SCOPE

5.7 In early 2002, with follow-up in October, we performed a broad scope audit of the Department of Environment and Labour under the mandate established by Section 8 of the Auditor General Act. Our audit was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

5.8 Our audit focused on the Provincial drinking water safety system in the areas of standards and qualifications, compliance and enforcement. Specifically, the objectives of this assignment were to assess:

- the Department's process for developing and promulgating standards to ensure safe, clean drinking water;
- the process used to ensure the appropriate qualification of individuals involved in drinking water quality and safety activities;
- the Department's monitoring, inspection and other activities as they relate to drinking water quality and safety requirements of legislation, regulations and/or policy; and
- the adequacy of systems for the enforcement of Provincial legislation and regulations related to drinking water quality and safety.

5.9 The audit did not address water bottled and sold for human consumption. Bottled water quality is a Federal responsibility regulated through the Canada Food and Drug Act. Monitoring and inspection is conducted by the Canadian Food Inspection Agency.

5.10 Audit criteria were developed to assist in our assessment of the systems and practices of the Department. The audit criteria were discussed with and accepted as appropriate by senior management of the Department, and are outlined in Exhibit 5.1. Our audit procedures included interviews with management and staff, testing of inspection files, as well as examination of other documents.

PRINCIPAL FINDINGS

Standards and Qualifications

5.11 *Background* - A multiple-barrier approach is advocated as the best means of assuring safe drinking water. This involves a series of safeguards or barriers at different points in the water supply to minimize the possibility of contaminants entering the water and being consumed. The Department of Environment and Labour groups the safeguards into three categories:

- source water protection;
- proper treatment and system operation; and
- monitoring and testing.

5.12 The safeguards can be applied to different systems, from large public water supplies to private wells. There are Regulations and programs in place to facilitate each component of multiple-barrier protection.

5.13 The primary requirements related to drinking water safety are outlined in the Environment Act and its related Regulations. The Act provides for designated source water protection areas (i.e., watershed lands) for public supplies. The Well Construction Regulations provide protection for private wells. Various Regulations address water treatment and other system operations, as well as monitoring and testing requirements. The Environmental Assessment Regulations and some contaminant-specific Regulations also have water protection as an objective (Exhibit 5.2).

5.14 *Drinking water strategy* - The Department released its new drinking water strategy in October 2002. The strategy is based on the principles of sustainability and integrated management, and the premise that everyone has a responsibility to maintain and protect the environment. It builds on current legislation and incorporates the multiple-barrier approach to ensuring drinking water safety.

5.15 The key elements identified in the strategy are the clarification of the roles and responsibilities of all stakeholders, strengthening the multiple-barrier approach to water management, and the creation of an interdepartmental drinking water management committee to implement and manage the strategy. The strategy also identifies four main challenges in managing water resources:

- continuing to protect drinking water sources;
- ensuring adequate treatment;
- ensuring the safety of small systems; and
- balancing social and economic interests.

5.16 The accompanying multi-year action plan includes activities to address some of the main components in each of the three stages of the multiple-barrier approach.

5.17 *Standards development* - There are drinking water guidelines for a number of microbiological, chemical, physical and radiological parameters. The guidelines were developed and are updated periodically by the Federal-Provincial-Territorial Committee on Drinking Water and are outlined in the publication *Guidelines for Canadian Drinking Water Quality* produced by Health Canada. The Committee meets twice each year and has been involved in the development of drinking water guidelines since its inception in 1983. It is composed of representatives of each provincial and territorial government, as well as representatives of Health Canada and Environment Canada. Officials from Health Canada act as scientific advisors to the Committee. A Department of Environment and Labour staff member sits on the Committee as the Nova Scotia representative.

5.18 The process used to develop Canadian drinking water guidelines is well established and generally follows approaches used in many other countries. The Committee revises the guidelines on a regular basis to reflect current scientific research.

5.19 Provincial Regulations require the monitoring and testing of public drinking water supplies by their owners. They establish a regime and frequency for microbiological testing and list 30 chemical and physical parameters that must also be monitored on a regular basis. Health Canada's health-based *Guidelines for Canadian Drinking Water Quality* are stated as the standard for evaluating water tests. Additional parameters for testing may be specified by the Department of Environment and Labour for a public water supply where circumstances warrant (e.g., proximity to certain industries).

5.20 In January 2001, the Sierra Legal Defense Fund published *Waterproof: Canada's Drinking Water Report Card*. The report is a survey of drinking water protection in Canada and provides an analysis of how each province fares in a number of key areas. The report was critical of the *Guidelines for Canadian Drinking Water Quality* because the guidelines do not include all of the substances included in the American *Safe Drinking Water Act* administered by the United States Environmental Protection Agency. The United States is considered to have some of the most stringent drinking water standards in the world. (Exhibit 5.3) The report also notes that some of the allowable concentration limits in Canada are higher than in the United States. In addition, the report states that no province requires that all parameters in the Canadian drinking water guidelines be monitored as part of the regulation of public drinking water supplies.

5.21 However, officials of the Department of Environment and Labour believe the Canadian guidelines are adequate and the process for determining standards is rigorous and diligent. The difference in the number of substances included in the guidelines may be due, in part, to differences in hazardous products that are allowed to be used in each country. As for requiring analysis of all parameters in the guidelines, the Department considers this to be an impractical and unnecessary measure. Many microbiological and chemical parameters would not be a risk factor for certain water supplies due to the nature of the supply, such as groundwater not under the direct influence of surface water, or the absence of certain types of industry near the watershed area.

5.22 Water treatment facilities are assigned a classification based on a point-rating scale that considers water supply source, population served and treatment methods employed, among other factors. The classification is used in determining the qualifications needed by individuals operating the systems. The Association of Boards of Certification - located in Ames, Iowa and governed by individuals from various countries - is the organization recognized by the Province for setting classification standards. The Association's activities, carried out by volunteer committees and professional staff, seek to define and maintain internationally-recognized qualifications for certification, and promote uniformity of standards and practice.

5.23 Standards for well construction, as well as certification requirements for well drillers, well diggers and pump installers, are specified in Provincial Regulations. The standards are based on input from the Well Construction Advisory Board, a Provincial body that provides advice on standards and guidelines based on practices advocated by other provinces, the well construction industry and groundwater associations. The standards for well construction materials are based on guidelines of the American Society for Testing Materials, the American Water Works Association and the National Sanitation Foundation.

5.24 Standards and guidelines set out in Provincial Regulations are reviewed periodically. The Water and Wastewater Facility Regulations were last amended in 2000. The Well Construction Regulations were last revised in 1995.

5.25 There are no Regulations or guidelines concerning the safe collection, transport and discharge of water by tank trucks to wells or storage tanks for domestic consumption. Draft guidelines were developed in 2001, but they have not yet been approved and issued. We were informed that the risks associated with bulk transportation of drinking water are borne mainly by private well owners, who are responsible for their own water quality and can mitigate the risk through testing of delivered water.

5.26 The January 2001 Sierra Legal Defense Fund report also made specific recommendations to improve water protection in Canada, including:

- filtration for all surface water supplies;
- binding standards for the design, construction and operation of water treatment and distribution facilities; and
- public reporting on water testing results and the state of water supplies.

5.27 The Department recognizes there is a need for proper treatment, such as filtration, for surface water supplies, but believes that making it a requirement without sufficient lead-time would place an undue financial burden on municipalities. The Department's approach has been to encourage and work with municipalities to bring about the needed upgrades to their systems (see paragraph 5.44). The Department considers the engineering standards specified in Nova Scotia Regulations to be sufficient for designing and building safe water treatment facilities and systems. However, it has committed, in collaboration with the other Atlantic provinces, to the development of a standards and guidelines manual for all of Atlantic Canada. Public reporting by public water supply owners is not a requirement, but the information is generally available to members of the public upon request. The Halifax Regional Water Commission and the Town of New Glasgow have produced and distributed informative water quality reports even though they are not required to do so.

5.28 *Public education* - The Department provides ongoing public education and promotion relating to drinking water quality and safety standards through its internet website; with a specific section - Clean Water Watch - dedicated to water issues. The Department also initiated a clean water week in 2000 and was involved in the promotion of National Drinking Water Week in 1999. The Department has produced brochures and booklets on drinking water safety issues, and has used the print media to deliver messages on the need for regular testing of well water. Department staff are available for consultation and attend community fairs and school events.

5.29 *Qualifications* - The Department has a staff of 73 inspectors to address its environmental monitoring and compliance responsibilities, including drinking water safety. Inspectors must have an educational background sufficient to be eligible for certification as an environmental technologist or public health inspector, but need not seek the actual certification. Approximately half of the Department's inspection staff are Certified Public Health Inspectors certified through the Canadian Institute of Public Health Inspectors. Most of the other staff are Certified Environmental Technologists belonging to the Society of Certified Engineering Technicians and Technologists of Nova Scotia, or are eligible to write exams for attaining the designation.

5.30 The Department also has five hydrogeologists on staff and expects to have two more by the end of 2002. The hydrogeologists act as resource persons and provide expertise on groundwater and wells, and assistance in investigating water contamination. The Department recently hired two watershed planners, a drinking water supervisor, a water monitoring technician, a water treatment facilities specialist, a facilities engineer, and a GIS/database management specialist.

5.31 As discussed in paragraph 5.22, water treatment and distribution systems are classified based on criteria such as water treatment methods and population served. Persons responsible for operating such systems must be certified for the classification level of the system. The higher the classification, the more education and/or experience required by the operator. Qualification and certification standards for operators are determined by the Association of Boards of Certification and incorporated into Provincial Regulations. The Association provides certification exams and marks the results. The Department administers the exams on the Association's behalf for individuals seeking certification in Nova Scotia.

5.32 Well drilling and digging practices and qualifications are administered by the Well Construction Advisory Board and monitored by the Department through periodic inspection. To carry out well construction, well drillers and diggers must be licensed through the Department and comply with the Well Construction Regulations. They must meet certain requirements to be licensed and must renew their licences annually. The Department encourages the public, through publications and other public pronouncements, to ensure well drillers and diggers are licensed before hiring them to construct a well.

5.33 In 2001 the Department developed a policy on the use of accredited laboratories for water testing. Effective January 1, 2002, all analytical testing for chemical contamination required for public water supplies is to be conducted by accredited laboratory facilities or facilities maintaining an acceptable standard in a proficiency testing program. Laboratories have until January 1, 2003 to achieve accreditation for testing for microbiological contamination.

5.34 Certification and proficiency testing of laboratories is carried out by the Canadian Association for Environmental Analytical Laboratories, under agreement with the Standards Council of Canada. The Association certifies that laboratories meet specified standards and it conducts periodic audits to ensure continued compliance.

5.35 We were informed that Nova Scotia laboratories, where applicable, have achieved the required certification for chemical analysis and all laboratories are working toward completion of requirements for certification for microbiological analysis. However, completion of the certification process for most of the public laboratories (hospitals) has been delayed and is not likely to be completed within the time frame specified in the policy. The Department and hospital laboratories have been exploring other options to ensure testing standards are met during the time it takes to have the laboratories certified.

5.36 The Department prepared Memorandums of Understanding outlining the respective responsibilities of laboratories and the Department with respect to water testing. All of the laboratories have signed a Memorandum.

5.37 *Training* - Newly hired inspection staff at the Department of Environment and Labour receive training in their job responsibilities by accompanying an experienced inspector on a variety of inspections. This ‘on-the-job’ training generally takes several weeks. Other training is provided to inspection staff, as required, through in-house and external facilities. The annual performance appraisal process also provides an opportunity for staff and management to establish training needs as individual goals for the year.

5.38 Currently, there is no requirement for continuing training for certified water system operators, although such training is encouraged. However, the Department has drafted revisions to the certification requirements that would have operator certificates expire three years from the date of issue. Operators would be eligible for recertification by accumulating acceptable training and experience during the three years, or be required to rewrite the certification exam. The revised standards are in draft form and await finalization of plans for the implementation process.

5.39 There is no mandatory ongoing training for well drillers and diggers, but opportunities are available through the Nova Scotia Groundwater Association and the Canadian Ground Water Association. The Department has been working with the Nova Scotia Groundwater Association to develop a mechanism to provide funding for training, education and upgrading of operators in the industry.

Compliance

5.40 *Background* - The Department has a broad mandate under the Environment Act and associated Regulations, which includes the protection of drinking water supplies. As well, sections of other legislation (Health Act and Municipal Government Act) govern matters relating to drinking water. Although the Department of Environment and Labour is the lead agency in ensuring compliance with legislation pertaining to drinking water safety, there are roles and responsibilities defined for other Provincial departments and the Federal government, as well as public and private water supply owners.

5.41 *Municipal water supplies* - There are 82 municipal water systems in the Province. The operation of a municipal water treatment or distribution facility requires the approval of the Minister of Environment and Labour. An application for approval must be supported by documentation describing the facility. Department engineers classify the facility according to the rating system set out in Regulations and perform a technical review to ensure the proposed system adheres to the Department's standards, policies and guidelines. If all criteria are met an approval is issued, generally for a ten-year term, renewable upon application by the owner.

5.42 The approval for a new municipal water system lists any terms and conditions the applicant must satisfy, such as specific monitoring requirements and preparation of a contingency plan. Monitoring requirements may be more stringent than the minimum level of testing provided for in Provincial guidelines. Each facility has its own particular set of circumstances, such as geographic location and nearby industries, and testing requirements may be adjusted to reflect these. Municipal water supply operators must do microbiological testing weekly, if not more frequently, and many have a chemical analysis performed every six months. Operators are required to submit a monthly report to the Department outlining the results of testing.

5.43 It is the responsibility of each municipality to have a contingency plan in place to respond to emergencies such as chlorination failure and power outages. As well, there must be a strategy to communicate disruptions to the public and the Department.

5.44 As part of its new water strategy, the Department has identified the need for a review of municipal water system approvals. It has developed an implementation plan which will result in a new or updated 'Approval to Operate' issued to all municipal water systems to verify that they provide the best quality water product. The plan includes advising the municipalities of the requirement to complete a source water assessment report from which a comprehensive treatment and operational strategy is to be developed. It is anticipated that it will take six years before all construction is completed and operational systems are in place. The review process will also result in minimum levels of treatment for source water. The minimum level of treatment for surface water, and groundwater under the influence of surface water, will be filtration and disinfection. The minimum level of treatment for groundwater will be disinfection.

5.45 We obtained a listing of municipal water supplies including facility and operator classifications. We noted 13 facilities where the operator classification was at a level lower than the facility classification. We were informed that a number of the municipalities have had recent upgrades to systems, but there has been insufficient time for operators to achieve the higher certification level. In February 2002, the Department contacted each municipality where there was such a discrepancy, requesting an action plan to address the deficiency. The Department will be following up during its review of municipal water system approvals.

5.46 *Registered water supplies* - Effective October 2000, public drinking water supplies other than municipal systems must be registered with the Department. Regulations stipulate criteria for determining which supplies must be registered. Public water supply owners must complete a registration form and provide details about the water system, such as the number of connections and the population served. The information is entered into the Department's registered water supply database and a letter is sent to the owner noting the assigned registration number and summarizing the owner's responsibilities as a provider of drinking water to the public. Owners are also provided with an information package including the Province's *Guidelines for Monitoring Public Drinking Water Supplies*.

5.47 The Department estimates there are approximately 1,800 public drinking water supplies requiring registration and implementation of a water quality monitoring program. To handle the volume and ensure all required supplies are registered, the Department employed a phased approach based on risk. Public water supplies were classified into four groups, with group one including supplies deemed to be of higher risk (e.g., schools, day care centres, hospitals, nursing homes) and group four for lower risk supplies, such as campgrounds. The Department focused on registering the higher risk supplies before moving on to the other groups. The Department originally estimated that it would have all public water supplies registered by October 1, 2002. As of November 5, 2002, approximately two years after the regulatory requirement for registration was approved, there were 1,512 supplies registered.

5.48 Registered water supply owners are required to take a water sample every three months for microbiological testing. Chemical analysis of water is required every one or two years, depending on the water's source. Water supplies in each registration group were assigned a different monitoring period in order to smooth the workload of laboratories and Department staff.

5.49 To ensure all public drinking water supply owners complete the registration process, the Department, in cooperation with other government departments such as Health and Community Services, and industry organizations such as the Retail Gasoline Dealers Association, sent letters to owners informing them of the change in the Regulations and the requirement to register water supplies. The Department also provided information sessions for various affected groups and used the print media to inform the public of the new Regulations and registration requirements.

5.50 *Monitoring and inspections* - The Department has committed to auditing each of the 82 municipal water systems in the Province at least twice a year. Audits are unannounced and the length of the audit will vary depending on the complexity of the system and type of review conducted. Audits may involve water testing only or include an extensive review of the entire waterworks system.

5.51 We examined a sample of files to determine if the Department's monitoring and audit systems were operating effectively to provide for compliance with water safety requirements outlined in legislation, regulations and policies. We were able to examine audits of municipal water supplies, but not audits of registered water supplies. The Department has performed over 360 inspections of registered water supplies because of the presence of contamination and the issuance of boil water advisories, but there have not yet been any audits because registration is still in progress.

5.52 We have a number of observations to report from our testing of municipal supply audits. We selected 60 municipal water supplies and reviewed the related audit files for the 2001 calendar year. We noted that semi-annual audits were carried out at 56 of the facilities. Only one audit was carried out during the year at the other 4 facilities. This was explained to us as the result of misinterpretation of Departmental policy. At all 60 facilities there was evidence of weekly microbiological testing and at least annual chemical analysis.

5.53 We observed that most of the audits involved water sampling only. When a more detailed audit was carried out and an audit report prepared, we could not determine the extent of the audit work performed. The audit form used by the Department did not provide details on how an audit should be performed.

5.54 When we returned in October 2002 to follow up on some of our audit findings, we found that the Department had developed an audit checklist for waterworks systems and used it for audits carried out in the summer of 2002. We were told that inspection staff were to complete only certain sections of the checklist because of the type of review being carried out in 2002 (i.e., water sampling). We remained concerned that audits of municipal water supplies were not very comprehensive. However, we found that the Department had introduced guidelines for scheduling and determining the extent of audits based on a risk assessment evaluation process. Also, there are plans for complete reassessments of all municipal water supplies starting in the fall of 2002, as described in paragraph 5.44.

5.55 We also noted that documentation such as laboratory reports was missing from some of the files, and inconsistency among the regional offices in the manner in which files were organized and maintained. Also, there was minimal review of the quality of audit documentation by management. During our follow-up visit, we noted that the Department was finalizing a policy on preparing and tracking files, and that periodic reviews by management of the quality of audit documentation will be required.

5.56 As noted in paragraph 5.51, the Department is still in the process of registering non-municipal public drinking water supplies and no audits have yet been performed for these supplies. However, owners are still required to perform quarterly sampling as set out in Provincial guidelines. Department officials indicated they could rely on being notified by a laboratory if a registered water supplier was not submitting quarterly samples or if a sample came from a supplier that was not registered.

5.57 The Department expects to begin auditing registered supplies early in 2003. It is planning to coordinate its efforts with other government inspection programs to maximize efficiency. For example, food safety inspectors with the Department of Agriculture and Fisheries, as part of their existing mandate, check that a food service establishment with its own water supply has registered and is testing its supply. Inspectors can also take a water sample for analysis.

5.58 We believe, however, that there has been insufficient planning relating to the compliance monitoring process for registered water supplies. The Department has not yet formally determined and documented how it will carry out the audits, including the procedures and forms to be used. It has not prepared an analysis of how audits of registered supplies will be allocated among the various departments and whether there are sufficient resources available to do the work. The Department has not adequately considered how it will ensure other departments' inspectors are providing adequate compliance monitoring coverage.

Recommendation 5.1

We recommend that the Department develop audit procedures and forms, study resource issues, establish coordination mechanisms and implement quality control standards for the audit of registered water supplies.

5.59 *Boil water advisories* - Since October 2000, public water supply owners have been fully accountable for the safety of their waterworks systems. Public water supply owners and operators have been informed of their responsibilities, which include a quick response to any deficiency in the water system. The Department has developed a coordinated approach to ensure boil water advisories are initiated in an appropriate and timely manner. The Province's *Guidelines for*

Monitoring Public Drinking Water Supplies include a list of deficiencies that would require a boil water advisory (Exhibit 5.4), an advisory protocol, a suggested communication plan, and information on when an advisory can be removed. The Department must be notified of any cases of drinking water contamination on boil water advisories issued. Only the Department can remove an advisory once it has been initiated.

5.60 If an emergency occurs outside of regular business hours, the Department can be contacted through a 1-800 number. Inspectors are 'on call' 24 hours a day, on a rotational basis, to respond to emergency calls. Laboratories are required to notify the Department, in addition to the water supply owner, when a water sample analysis indicates the presence of microbiological contamination - a *positive test result*. The Department is to notify and coordinate with medical officers of the Department of Health in such situations.

5.61 When a laboratory or supply owner notifies the Department of a positive test result, the information is recorded and an investigation commences. Depending on the results of the test, a boil water advisory may or may not be issued immediately. For example, if a water sample test shows positive results for fecal coliform bacteria, a boil water advisory is issued immediately. However, if the test shows positive results for total coliform bacteria only, a second water sample is taken because the positive test result may have been due to improper sampling. If the second test is also positive, a boil water advisory is issued. An advisory is not removed by the Department until remedial action is taken, such as flushing the system with chlorine, and there have been two consecutive days with negative test results.

5.62 During our examination of municipal water system audit files, we noted where positive test results had occurred and determined whether follow-up water testing was performed as required by Provincial guidelines. We noted 55 cases where positive results for total coliform bacteria were found, of which 50 were followed up with a second water sample. There was no documentation in the files describing why follow-up samples were not taken for the other five positive test results. Of the 50 that were followed up, we could not find the laboratory results for eight of the follow-up samples. Among the 55 cases we examined, there were 11 where boil water advisories were issued. We noted that required procedures were followed in each situation where a boil water advisory was issued.

5.63 The Department has implemented a system to record boil water advisories issued (Exhibit 5.5) and removed. We reviewed files for registered (non-municipal) water supplies where boil water advisories had occurred during calendar year 2001. We found that the boil water advisory procedures were followed, although in some cases copies of laboratory test results or other supporting documentation were not in the file. We also noted two cases where the removal of the boil water advisory was not documented in the file. Documentation was subsequently obtained for one of the cases. In the other case, we were informed that the lifting of the advisory had been communicated verbally and Department records were not updated.

Recommendation 5.2

We recommend that Departmental requirements for the documentation and follow up of boil water advisories be complied with.

5.64 *Private drinking water supplies* - Responsibility for ensuring safe drinking water from private supplies, mostly wells, rests with the supply owners. Well drillers and diggers are required to submit a report to the Department on each well constructed. Details from the reports are entered into a database of all wells constructed in the Province. Department inspectors may inspect a well on private property in the course of inspection of an on-site sewage system, upon complaint of inadequate well construction, or in response to a report of contamination from a source outside of the owner's property.

5.65 *Complaints* - The Department has a process to record and investigate environmental complaints, including those relating to drinking water. A file is set up for each complaint unless the complaint relates to a matter where a file already exists. The type and extent of follow up by an inspector is dependent on the nature of the complaint. The Department is developing a file tracking system which will permit monitoring of the follow up of complaints.

Enforcement

5.66 *Roles and responsibilities* - Responsibility for the enforcement of drinking water safety is clearly set out in legislation and regulations, as well as in policy directives and guidelines issued by the Department to staff. Documented roles and responsibilities are consistent with relevant legislation and appropriately referenced to the Environment Act and Regulations. Policies and guidelines are issued to staff as developed, and the Department is finalizing an investigation reference manual for inspectors.

5.67 *Enforcement procedures* - The Department's operational bulletin on law enforcement sets out the parameters for enforcement actions. Although primary authority for enforcement is derived from the Environment Act, inspectors are also appointed as special constables under the Police Act. Where there has been a breach of legislation or regulations concerning drinking water safety, a warning or summary offence ticket can be issued; a Ministerial order can be issued to stop, prevent or require certain actions; or prosecution can be pursued.

5.68 The decision to take enforcement action begins with the inspector. The inspector considers a number of factors, such as the seriousness of the violation, the compliance history of the operator and the type of enforcement which will be most effective. The decision to pursue a Ministerial order or prosecute requires involvement of Department management. If a decision is made to prosecute, sufficient evidence must be gathered and discussed with a Crown prosecutor.

5.69 The Department recently acquired the ability to issue summary offence tickets for offences relating to public drinking water. It already had this ability for certain other violations of the Environment Act and Regulations. Fines for non-compliance are generally $675 per infraction.

5.70 At the time of our audit, the Department was changing the role and emphasis of its inspectors with regard to enforcement. Previously, inspectors performed a number of roles including consultation, education, inspection, sampling and enforcement. With such varied responsibilities, there was less emphasis on enforcement. This approach was not always appropriate when enforcement action was required. Prior inspector assistance in the form of consultation could later lead to difficulties obtaining sufficient evidence for prosecution.

5.71 The new approach emphasizes monitoring and compliance. Site visits are carried out only in the course of an inspection or audit. If the inspection or audit indicates there are no compliance violations, the assignment is complete. The inspector is not there for consultation or other services. If a compliance violation is noted, the inspector documents the violation and obtains evidence.

5.72 *Managing workloads* - The Department has initiated a formal status reporting process. Inspectors complete a weekly status report in cases where an enforcement action has occurred or there are other significant issues. The reports are reviewed by managers, compiled and forwarded monthly to head office for information purposes.

5.73 The Department maintains a database including a module for environmental registration and approvals information. The database also records enforcement information such as the name of the offender, location, type of violation, status, case outcome and fines levied. We concluded that appropriate data is being captured by the system, but the system does not have the ability to generate complete, comprehensive status reports on enforcement activities by year, by region or by type of action.

Recommendation 5.3

We recommend that the Department upgrade the reporting function of its environmental registration and approvals system so that it can provide all of the types of information helpful for monitoring enforcement activities.

5.74 *Appeals* - Specific appeal procedures are provided in the Environment Act. A decision or order from Department staff can be appealed to the Minister of Environment and Labour by notice in writing. Other appeals are made directly to the Supreme Court of Nova Scotia.

CONCLUDING REMARKS

5.75 The Department has good processes for developing and promulgating standards for safe drinking water and ensuring appropriate qualifications for individuals with responsibilities relating to safe drinking water.

5.76 There have been no audits of registered water supplies to date and audits of municipal water supplies have not been comprehensive during the last two years. The Department has suitable plans for improving its monitoring and audit of municipal water supplies, but needs to put more effort into planning for the monitoring and auditing of registered water supplies.

5.77 The Department has satisfactory systems for pursuing infractions of Provincial legislation and regulations relating to drinking water safety.

Exhibit 5.1

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed tests and procedures.

The following criteria were used in our audit of the Nova Scotia drinking water safety system.

Standards and qualifications - There should be sufficient knowledge to determine where drinking water safety standards are in need of development or change. There should be systems and procedures in place to develop appropriate safety standards on a timely basis. There should be ongoing public education and promotion of safety standards. Personnel should have appropriate education and qualifications to administer the laws for which they are responsible. Changes to legislation, regulations and policies should be communicated to personnel on a timely basis. There should be a process to ensure personnel receive ongoing training in drinking water safety standards and technologies and other relevant areas.

Compliance with legislation - There should be compliance with applicable provisions of Provincial drinking water safety legislation and regulations. Policies should be consistent with legislation and regulations. There should be a process which enables management to know whether or not key provisions of legislation and regulations are being complied with. There should be a system to ensure that monitoring, inspections and other activities are carried out on a regular and timely basis. There should be a system to follow up on the implementation of inspection recommendations.

Enforcement of the Act and Regulations - There should be a system to ensure Provincial legislation and regulations are appropriately enforced. Authorities, roles and responsibility for enforcement of legislation and regulations should be clear.

Exhibit 5.2

LEGISLATION AND REGULATIONS IMPACTING ON DRINKING WATER SAFETY

Environment Act

- Activities Designation Regulations
- Water and Wastewater Facility Regulations
- Well Construction Regulations
- Emergency Spill Regulations
- Environmental Assessment Regulations
- On-site Sewage Disposal Systems Regulations
- Pesticide Regulations
- Petroleum Management Regulations
- Sulphide Bearing Material Disposal Regulations
- Dangerous Goods Management Regulations
- Solid Waste Resource Management Regulations

Water Resources Protection Act

Health Act

Municipal Government Act

- Statements of Provincial Interest

Exhibit 5.3

COMPARISON OF STANDARDS FOR SELECTED PARAMETERS

Parameter	Standards				
	Canada	US EPA	EU	WHO *c*	UK
Bacteria					
E. Coli	0 per 100 ml	0 per 100 ml	0 per 100 ml	(1)	0 per 100 ml
Fecal Coliforms	0 per 100 ml	not detected	0 per 100 ml	(1)	0 per 100 ml
Total Coliforms	0 per 100 ml (2)	(3)	0 per 100 ml	(1)	0 per 100 ml
Chemicals					
Antimony	0.006 mg/l	0.006 mg/l	0.005 mg/l	0.005 mg/l	0.01 mg/l
Arsenic	0.025 mg/l	0.010 mg/l	0.01 mg/l	0.01 mg/l	0.05 mg/l
Boron	5 mg/l	-	1 mg/l	0.5 mg/l	2 mg/l
Fluoride	1.5 mg/l	4.0 mg/l	1.5 mg/l	1.5 mg/l	1.5 mg/l
Nitrate	10 mg/l	10 mg/l	50 mg/l	50 mg/l	50 mg/l
Selenium	0.01 mg/l	0.05 mg/l	0.01 mg/l	0.01 mg/l	0.01 mg/l
Metals					
Aluminum	0.1 to 0.2 mg/l (7)	0.05 to 0.2 mg/l *b*	0.2 mg/l	<0.2 mg/l	0.2 mg/l
Barium	1 mg/l	2 mg/l	-	0.7 mg/l	1 mg/l
Cadmium	0.005 mg/l	0.005 mg/l	0.005 mg/l	0.003 mg/l	0.005 mg/l
Chromium	0.05 mg/l	0.1 mg/l	0.05 mg/l	0.05 mg/l	0.05 mg/l
Copper	≤1.0 mg/l	TT (6)	2 mg/l	2 mg/l	3 mg/l
Iron	≤0.3 mg/l *a*	0.3 mg/l *b*	0.2 mg/l	0.3 mg/l	0.2 mg/l
Lead	0.01 mg/l	TT (6)	0.01 mg/l	0.01 mg/l	0.05 mg/l
Manganese	≤0.05 mg/l *a*	0.05 mg/l *b*	0.05 mg/l	0.05 mg/l	0.05 mg/l
Uranium	0.02 mg/l	30 ug/l	-	0.002 mg/l	-
Zinc	≤5 mg/l *a*	5 mg/l *b*	-	3 mg/l	5 mg/l
Appearance and Taste					
Color	15 TCU *a*	15 color units *b*	(4)	15 TCU	20 mg/ lPt/Co scale
pH	6.5 - 8.5 *a*	6.5 - 8.5 *b*	-	(5)	5.5 - 9.5
Turbidity	1 NTU	TT	(4)	5 NTU	4 FTU

Exhibit 5.3 (Cont'd)

Notes:

(1) Must not be detectable in any 100 ml sample
(2) No sample should contain more than 10 total coliform organisms per 100 ml. Not more than 10% of the samples based on a minimum of 10 samples should show the presence of coliform organisms
(3) No more than 5% samples total coliform-positive in a month
(4) Acceptable to consumers and no abnormal change
(5) No health-based guidelines set, preferably <8.0 for effective disinfection with chlorine
(6) Lead and copper are regulated by a treatment technique that requires systems to control the corrosiveness of their water. If more than 10% of tap water samples exceed the action level, water systems must take additional steps. For copper, the action level is 1.3 mg/l, and for lead is 0.015 mg/l
(7) No health-based guidelines set, operational guidance values only

a = Aesthetic objective
b = US secondary drinking water regulation that is a non-enforceable federal guideline regarding cosmetic or aesthetic effects
c = WHO standards are guidelines and not enforced

mg/l = milligrams per litre
FTU = Formazin Turbidity Units
NTU = Nephelometric Turbidity Unit
TCU = True Color Unit
TT = Treatment Technique (a required process intended to reduce the level of a contaminant in drinking water)

The table compares the drinking water quality standards set out in:

- *Guidelines for Canadian Drinking Water Quality - April 2002*
- *United States Environment Protection Agency (US EPA) Drinking Water Standards and Health Advisories - July 2002*
- *European Union (EU) Council Directive on the Quality of Water Intended for Human Consumption (98/83/EC) - 1998*
- *World Health Organization (WHO) Guidelines for Drinking Water Quality 1998*
- *United Kingdom (UK) The Water Supply (Water Quality) Regulations 1989 (as amended to 1999)*

Exhibit 5.4

DEPARTMENTAL GUIDELINES FOR MONITORING PUBLIC DRINKING WATER SUPPLIES

Deficiencies That Require a Boil Water Advisory

1) Water that does not meet the Guidelines for Canadian Drinking Water Quality requirements for bacteriological quality;

2) Lack of disinfection (equipment breakdown, emergency water supply from unchlorinated source etc.), failure of key water treatment process, or loss of pressure;

3) Fecal contamination of drinking water evidenced by fecal coliform positive samples;

4) Suspected cross connection or negative pressure;

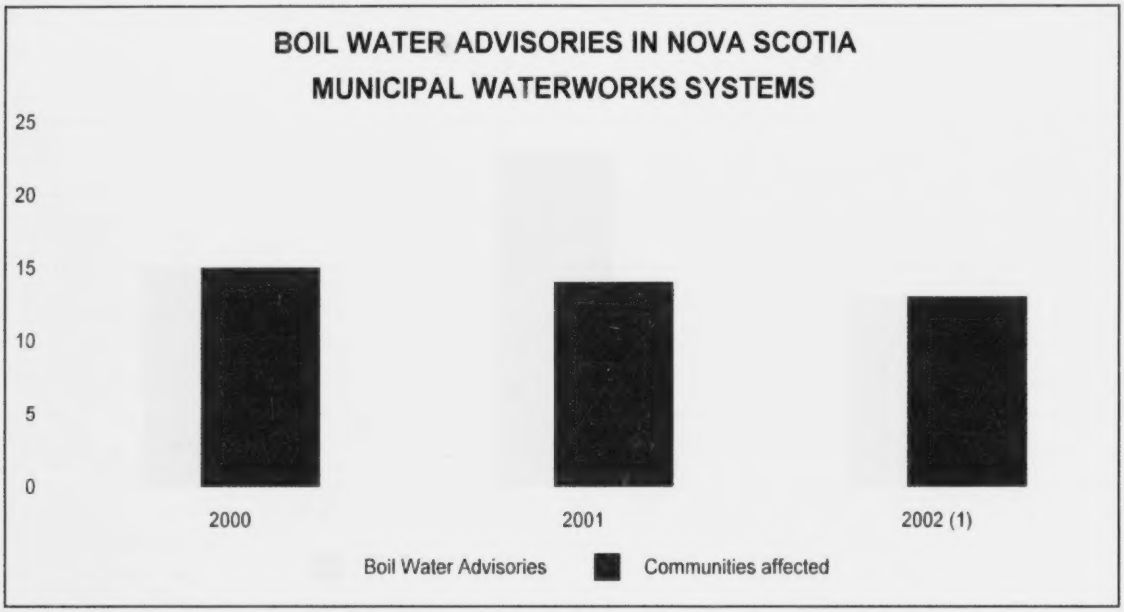
5) Ineffective disinfection due to high turbidity, temporary equipment malfunctions, high chlorine demand, etc. evidenced by coliform positive water leaving the treatment plant and generally poor bacteriological water quality;

6) Other circumstances which in the opinion of the Department or the medical officer constitutes a risk to public health (e.g. Giardia, Cryptosporidium contamination, etc.);

7) Evidence of outbreak of waterborne illness (the risk to young children, elderly and immuno-compromised people should be considered in a decision); or

8) A serious incidence of raw water contamination.

Exhibit 5.5



(1) Data for January to September 2002

DEPARTMENT OF ENVIRONMENT AND LABOUR'S RESPONSE

General Comments

The Department recognizes the audit findings that show there are good provincial processes in place for drinking water systems including: developing and promulgating standards; certifying operators; inspecting and monitoring activities; and enforcing compliance with the legislative framework. Nova Scotia's record of continuous improvement in water quality protection is reflected in these findings.

The Department acknowledges the three recommendations of the auditor's report for improving drinking water safety even further:

We recommend that the Department develop audit procedures and forms, study resource issues, establish coordination mechanisms, and implement quality control standards for the audit of registered water supplies. (Recommendation 5.1)

We recommend that Departmental requirements for the documentation and follow up of boil water advisories be complied with. (Recommendation 5.2)

We recommend that the Department upgrade the reporting function of its environmental registration and approvals system so it can provide all of the types of information helpful for monitoring enforcement activities. (Recommendation 5.3)

Initiatives are already underway to address the issues reflected in the recommendations, from inspection checklists to auditing systems to documentation procedures. We provide the following information and updates on the issues raised as a result of the broad scope audit.

Standards and Qualifications

5.20

The Sierra Legal Defense Fund publication Waterproof: Canada's Drinking Water Report Card was critical of the Guidelines for Canadian Drinking Water Quality not including all of the substances in the American Safe Drinking Water Act. However, as the auditor indicates in 5.21, the Canadian standards are appropriately rigorous without the inclusion of substances that are an issue in the United States, but not found or used to the same extent in this country.

Canada and the United States basically work with the same data set of health-related information, but develop guidelines or standards that are slightly different. The Guidelines for Canadian Drinking Water Quality (GCDWQ) provide limits for twenty-one substances that the US Environmental Protection Agency and the World Health Organization do not include. The GCDWQ also have a much more extensive list of parameters than most other countries for radioactive parameters.

5.6 (second bullet) and 5.25

Draft guidelines for trucks collecting, transporting and discharging water for domestic consumption have been developed, but are not yet approved and issued. Guidelines are a priority item, and are *on the agenda for the first meeting of the Inter-Departmental Drinking Water Management Committee (established under the new Drinking Water Strategy for Nova Scotia).*

5.27

Public reporting by public water supply owners is not mandatory, as in Ontario or the United States, but is generally available to members of the public. In addition, the Department sent a letter in August of 2001 urging municipal utilities to adopt policies on sharing water quality related data. A policy and position statement from the Canadian Water and Wastewater Association was provided, which advocated the sharing of water quality related data through annual reports. Several utilities are providing this information to their customers, thereby showing themselves to be open and accountable for their actions.

5.30

Staffing levels have been increased to address the requirements of the departmental drinking water program. The Department has five hydrogeologists, and expects to hire two more by the end of 2002. Also, as indicated in A Drinking Water Strategy for Nova Scotia, the Department has recently hired two watershed planners, a drinking water supervisor, a water monitoring technician, a water treatment facilities specialist, a facilities engineer, a GIS/Database Management Specialist. Four inspectors were also hired in the fall of 2001.

5.35

The certification process for most of the public laboratories at hospitals that conduct bacteriological analyses of water samples has been delayed. However, the Department is committed to working with the hospital laboratories to achieve certification, as they provide good public access, have years of experience, and are still responsible to notify the Department of any positive test results. The Department and hospital laboratories will work cooperatively to complete the certification process in 2003.

5.38

Continued training for water system operators is not mandatory at this time. However, as indicated by the auditor, revised Department standards have been drafted which will require re-certification of operators every three years. Municipalities are cooperating to achieve operator training standards. Implementation of the new standards will be coordinated with the establishment of new or updated approvals for municipal water systems (as described by the auditor in 5.44).

Compliance

5.45

Municipal water supply operator classifications must match their facility classifications. As indicated by the auditor, municipalities have been asked to address known deficiencies in operator certification levels. As new or updated approvals for municipal water systems are established (described in 5.44), the Department will confirm appropriate operator classifications requirements are met.

5.6 (bullet 4) and 5.47

The target date for registration of all non-municipal public drinking water supplies was October 2002. This target date was a reasonable estimate as the total number of supplies was unknown. During the past two years, department staff have worked with groups to identify and register public drinking water supplies. As of 5 November 2002, 1512 public drinking water supplies have been registered, representing eighty-four percent of the estimated 1800 public supplies.

As most public drinking water supplies have now been identified and registered, regional staff are moving from a voluntary compliance phase into the mandatory compliance phase. Enforcement tools such as Summary Offence Tickets, Long Form Informations, or Ministerial Orders will be issued to enforce registration requirements of the Water and Wastewater Facility Regulations.

5.6 (bullet 5), 5.51 and 5.56

An audit is a comprehensive evaluation of a regulated facility to determine if the entire operation is in compliance over an extended period of time with terms, conditions and regulatory standards prescribed in an approval or departmental legislation. The Department consciously allocated resources to the registration of public drinking water supplies, and the immediate inspections generated with the initiation of the registration process. The auditing function of the department begins after the initial phases of registration and inspection. The details of that process, which will include risk assessment evaluations, are under development and will be implemented in 2003.

5.6 (bullet 6), 5.52, 5.62 and 5.63

Of sixty municipal water supplies reviewed by the auditor, fifty-six were audited twice in 2001. A misinterpretation by staff of the new procedure led to four facilities receiving one audit. In 2002, all municipal water systems were audited twice.

Continuous improvements to file tracking, boil water advisory procedures, and periodic audits will occur. The Department has established a file tracking policy. Staff are currently evaluating file tracking systems in three of four regions within the province to track complaints, inquiries and investigations. The most suitable tracking system will be chosen and used in all regions as per the monitoring commitment in the Drinking Water Strategy. In addition, four positions for compliance staff will be established by June 2003. These inspectors will be assigned to each of the regional offices to coordinate the tracking of files.

In addition, supporting information technology will enhance compliance tracking. The departmental Environmental Information Management Access System (EIMAS) is used to record and track approvals for activities and facilities such as municipal water treatment plants. As this computerized system becomes fully operational in all regions, auditing and enforcement actions are easier to schedule and monitor.

5.53 and 5.54

Forms and procedures used for municipal water system audits have been revised as indicated by the auditor in 5.54. In addition, a departmental risk assessment process is underway which evaluates systems based on categories such as watershed protection levels, discharges, treatment levels, monitoring frequencies, and compliance records. Risk assessments are used to determine the appropriate comprehensiveness of audits.

5.55

Consistency of file organization and maintenance will improve under the new file tracking policy and system (see 5.52). A review of documentation quality is built into the file tracking systems under evaluation. Files assigned to each inspector will be reviewed by supervisors on a short-term periodic basis to facilitate handling in a timely manner.

5.6 (bullet 5), 5.57 and 5.58

The Department is investigating options for auditing a sample of all registered supplies annually in coordination with other government departments.

Provincial food safety inspectors do, and will continue to, check that a food service establishment with its own water supply has registered and is testing its supply each year. We are piloting an operational agreement to ensure that the Department is informed of annual water tests. In addition, the Department has worked with tourism department staff regarding public drinking water supplies associated with tourism establishments. In the course of their duties, tourism staff will identify any establishments which have not completed water tests and inform environmental inspectors.

With the release of the Drinking Water Strategy in October 2002, an interdepartmental committee on drinking water has been established. This committee has the mandate to coordinate governmental activities on drinking water. The issues identified by the auditor will be addressed in 2003.

Enforcement

5.73

The departmental Environmental Information Management Access System (EIMAS) is used to record and track approvals for activities and facilities such as municipal water treatment plants. As all regional staff become fully versed in this computerized system, auditing and enforcement actions are easier to schedule and monitor. The system has the capability to provide comprehensive summary reports. Once enhanced staff training is completed over the coming months, staff will be able to produce reports consistent with the auditor's recommendations.

6.

ENVIRONMENT AND LABOUR - WORKERS' COMPENSATION BOARD OF NOVA SCOTIA - GOVERNANCE STRUCTURE AND PROCESSES

6.1 Section 15 of the Auditor General Act permits Executive Council or Management Board (now Treasury and Policy Board) to direct the Auditor General to audit a government organization or an organization receiving financial assistance from government. The Auditor General will conduct the audit if he is provided the funding necessary to undertake the project and if, in the opinion of the Auditor General, the assignment will not unduly interfere with other duties of his Office.

6.2 On November 20, 2001 Treasury and Policy Board requested the Auditor General to conduct an audit of the Workers' Compensation Board. The Auditor General was asked to consult with the Minister of Environment and Labour on the scope and timing of the audit and to provide the results of the audit to the Minister. The Auditor General concluded that the assignment would not unduly interfere with other work of the Office, and was authorized to collect the cost of the audit from the Workers' Compensation Board.

6.3 Upon consulting with the Minister of Environment and Labour, the Office of the Auditor General undertook an examination of the governance structure and processes of the Workers' Compensation Board. The audit was concluded in June 2002 and reported to the Minister. A copy of the report was provided to the Deputy Chair of the Workers' Compensation Board.

6.4 Upon accepting the assignment, the Auditor General informed the Minister that he would, at his discretion, include the report from the assignment in his Annual Report. The following pages of this Chapter are the full report provided to the Minister of Environment and Labour on June 14, 2002. Appendix 2 to the report contains the Workers' Compensation Board's detailed response to the observations made in the report.

Audit of the Governance Structure and Processes of the Workers' Compensation Board of Nova Scotia

Office of the Auditor General of Nova Scotia
June 2002

June 14, 2002

Honourable David Morse, MBA
Minister of Environment and Labour
Province of Nova Scotia
Halifax, Nova Scotia

Dear Mr. Morse:

On November 20, 2001, Treasury and Policy Board directed me to conduct an audit of the Workers' Compensation Board of Nova Scotia. Based on consultation with you, an examination of the governance structure and processes of the Workers' Compensation Board was performed.

I have the honour of providing you with this report on my observations and conclusions as a result of this assignment.

Yours truly,

E. Roy Salmon, FCA
Auditor General

Audit of the Governance Structure and Processes of the Workers' Compensation Board of Nova Scotia

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I. SUMMARY

1.1 Upon the request of Treasury and Policy Board, and consultation with the Minister of Environment and Labour, the Office of the Auditor General undertook to examine the governance of the Workers' Compensation Board (WCB) of Nova Scotia.

1.2 The audit was planned and conducted in accordance with the assurance standards of the Canadian Institute of Chartered Accountants. Audit criteria were derived from research published by CCAF-FCVI Inc. The audit focused on governance structures and processes, and did not undertake to evaluate the effectiveness of the Board or individual members' performance of their governance responsibilities.

1.3 Governance can be defined as the process of directing the actions, affairs, policies and/or functions of an organization. It is a fundamental method of control practiced in a wide range of entities; from public corporations to charitable organizations to all manner of public service providers (e.g., governments and government agencies).

1.4 The Workers' Compensation Act stipulates that the Board of Directors of the WCB consist of not more than 11 members. All members are appointed by the Executive Council of government. Due to the organization's mandate to serve both workers and employers, efforts are made to ensure equal representation from the two groups. At the time of our audit, the Board of Directors was comprised of a deputy chair, three representatives of employers, three representatives of workers, as well as two non-voting representatives of the 'public-at-large.' The Chief Executive Officer and the full-time secretary of the Board attend meetings on a non-voting basis. The Board of Directors maintains standing committees on audit and finance, investment and governance.

1.5 We found that the Workers' Compensation Board has a formal governance function which plays an active role in directing the organization's operations.

1.6 The Board has a number of processes to provide members with an opportunity to develop and maintain the knowledge and skills necessary to fulfil their responsibilities. Attendance at meetings is good. Legislative measures exist to protect directors from legal liability. However, problems exist with respect to filling Board positions. The length of time in filling the vacancy in the position of Board chair is excessive. The lengths and timing of directors' terms need attention, and per diem payments and expense reimbursements to directors need re-examination. There should be written position descriptions for the various Board positions, as well as a formal process for evaluating the performance of the Board of Directors.

1.7 There are reasonable processes for maintaining independence between the governance and management functions of the WCB. Board members express a clear understanding of their responsibilities and have opportunities to receive education in governance theory. The Board has developed formal beliefs, principles and policies to guide its deliberations, and committees with terms of reference address important areas of Board business. However, we observed inadequate attention to the development of formal governance practices, as well as a lack of cohesiveness among Board members.

1.8 We found appropriate attention by the Board to both short and long-term planning. Directors receive regular reporting from management on organizational performance in relation to plans. However, we noted uncertainty about the WCB's role with respect to the entire workers' compensation system, which comprises many other groups, and a lack of system-wide planning.

1.9 Board members receive a great deal of information on the control and performance of the WCB in the form of written reports and presentations. Directors can ask questions and request additional information. The WCB has an internal auditor and external auditors, both of which report to a committee of the Board. External auditors are evaluated and selected by the Board. We believe there is a need for the Board to develop formal guidelines on the types, extent and form of information that should be presented by management at Board meetings. We also see an opportunity for the Board to take a greater role in monitoring the internal audit function.

1.10 The Board is comprised of a reasonable number of directors, each of which expresses a clear understanding of the interests served. Reasonable amounts of time are committed to Board business and there is a formal agenda setting process. The Board addresses its planning, policy and monitoring responsibilities without taking on responsibilities which would normally be considered to be those of management. The Board sets performance expectations for the Chief Executive Officer and evaluates his performance on an annual basis. We concluded that more attention should be given to the Chief Executive Officer position, primarily with respect to the formalization of Board-related roles and responsibilities, employment terms and succession planning. We also believe more information should be provided in the minutes of Board and committee meetings.

1.11 The Board provides appropriate attention to its accountability responsibilities. It has formal communications policies, produces and approves a comprehensive annual report, and provides extensive information through the Internet. The annual financial statements of the WCB are audited. We made recommendations for strengthening of the annual report through provision of additional information on the WCB's governance structure and practices, and through reporting of performance targets and the discussion of performance trends and success in meeting targets. We also observed some uncertainty with respect to the Board's accountability to the Nova Scotia government after legislative changes in 2001.

II. BACKGROUND

Governance

2.1 Governance can be defined as the process of directing the actions, affairs, policies and/or functions of an organization. It is a fundamental method of control practiced in a wide range of entities; from public corporations to charitable organizations to all manner of public service providers (e.g., governments and government agencies).

2.2 The nature of the organization will have an impact on how it is governed. For example, corporate boards of directors seek to maximize shareholder value. Non-profit boards focus on achieving mandates and maximizing client service. Governments often focus on stakeholder and/or public needs.

2.3 However, there are many elements of governance which are similar, despite the nature of the organization. Governing bodies are normally comprised of part-time, often independent persons who fulfil a leadership position between the owners or resource providers of an organization and its full-time, employed management. Boards have stewardship and accountability responsibilities to the organization's owners or resource providers. Governing bodies direct and oversee the management of an organization, but do not assume day-to-day managerial responsibilities. In all cases, effective governance is key to an organization's ability to perform well over the longer term. It provides leadership and can set a tone that will permeate the whole organization.

2.4 Whereas concentrated research into management techniques and methodologies go back to the early parts of the twentieth century, research and attention toward governance structures and practices (other than political structures) is comparatively recent. Significant corporate insolvencies and nonprofit agency failures, both in Canada and abroad, have called attention to the importance of good governance. A number of academic, research and other bodies have studied the subject of governance and made recommendations which, if heeded, should go a long way towards strengthening the oversight and control of business, not-for-profit and public organizations.

Workers' Compensation Board

2.5 The mission of the Workers' Compensation Board of Nova Scotia (WCB) is:

> *to coordinate the workers' compensation system to assist injured workers and their employers by providing timely medical and rehabilitative support to facilitate the efforts of injured workers to return to work; and by providing appropriate compensation for work-related disabilities.*

2.6 The WCB is one participant in the workers' compensation system, which also includes: workers and their representatives, employers, the medical community, WCB service providers, Workers' Advisers, the Workers' Compensation Appeals Tribunal, government (e.g., occupational health and safety program) and those involved in injury and disease prevention. The WCB's stated strategy is to provide an effective administration in order to co-ordinate all the partners in the system to focus their efforts on building a healthy, working Nova Scotia.

2.7 The WCB derives its mandate and responsibilities from the Workers' Compensation Act. The organization provides coverage to approximately 67% of employed workers in Nova Scotia. During the year ended December 31, 2001 34,701 claims were registered with the WCB, of which 9,200 involved compensable time-loss. Revenues exceeded expenses by $18.4 million during the period. At December 31, 2001 the organization had total assets of $730.9 million, total liabilities of $1,020.2 million, and an unfunded liability of $289.3 million.

2.8 The Workers' Compensation Act stipulates that the Board of Directors of the WCB consist of not more than 11 members. All members are appointed by the Executive Council of government. Due to the organization's mandate to serve both workers and employers, efforts are made to ensure equal representation from the two groups. As of the time of our audit, the Board of Directors was comprised of a deputy chair, three representatives of employers, three representatives of workers, as well as two non-voting representatives of the 'public-at-large.'

2.9 All directors are independent of the management of the organization. The Chief Executive Officer and the full-time secretary of the Board attend meetings on a non-voting basis. Other members of management report to the Board of Directors when requested. The Board of Directors maintains standing committees on audit and finance, investment and governance.

III. DESCRIPTION OF AUDIT

3.1 This audit was conducted under the authority of Section 15 of the Auditor General Act. The Act indicates that the Governor in Council or Management Board (currently Treasury and Policy Board) can direct the Auditor General to make an examination or audit of the accounts of an agency of government or an organization receiving financial assistance from government. The Auditor General will undertake the audit where, in his opinion, it does not unduly interfere with the other duties of his Office and where he has been provided with the funding he considers necessary to conduct the assignment.

3.2 Upon the request of Treasury and Policy Board, and consultation with the Minister of Environment and Labour, the Office of the Auditor General undertook to examine the governance structure and processes of the Workers' Compensation Board of Nova Scotia.

3.3 The audit was planned and conducted in accordance with the assurance standards of the Canadian Institute of Chartered Accountants. These standards require audits to use generally accepted standards of performance in the assessment of systems and processes where such standards exist. Whereas there is no single widely-accepted source of standards for governance in Canada or abroad, there have been recent studies which have recommended ways in which governance can be assessed and improved. One authoritative source of research in this area is CCAF-FCVI Inc., a Canadian research and educational foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit. In 1997, the foundation published six characteristics of effective governance. These characteristics suggest that members of boards of governance should:

- have the necessary knowledge, ability and commitment to fulfill their responsibilities;
- understand their purpose and whose interests they represent;
- understand the objectives and strategies of the organization;
- understand what constitutes appropriate information for good governance and obtain it;
- be prepared to act to ensure that the organization's objectives are met and that performance is satisfactory; and
- fulfill their accountability obligations to those whose interests they represent by reporting on the performance of the organization.

3.4 These six characteristics were used as criteria for planning the audit and assessing the governance structure and processes of the WCB. Other governance research and publications were also considered in forming our assessments, including those of the Canadian Institute of Chartered Accountants, CCAF-FCVI Inc., and Toronto Stock Exchange sponsored committees on corporate governance.

3.5 The audit focused on governance structures and processes. We did not undertake to evaluate the effectiveness of the Board or individual members' performance of their governance responsibilities. Audit procedures included a comprehensive survey and follow-up interview of each Board member, the Chief Executive Officer and the Executive Corporate Secretary. We also examined governance-related items such as Board policies and guidelines, committee structures, agendas, minutes, management reports, and formal reporting by the Board to its stakeholders.

3.6 We received very good cooperation from the directors and staff of the WCB during our audit. A response by the Board of Directors of the WCB to this report is provided in Appendix 2 on page 25.

3.7 Previous audits of the WCB by the Office of the Auditor General are reported in Chapter 16 of the 1998 Report of the Auditor General, and in Chapter 16 of the 1996 Report.

IV. AUDIT OBSERVATIONS

Knowledge, Ability and Commitment

4.1 Effective governance requires a board of directors comprised of people with the necessary knowledge, ability and commitment to fulfil their responsibilities. Factors that would foster this characteristic include appropriate criteria for the selection and remuneration of directors, ongoing educational programs for directors, and the provision of timely and relevant information about the nature and operations of the organization.

Observations

4.2 During our audit of the Workers' Compensation Board, we observed the following instances of good governance structure or practice.

- The Board approved a statement on skill categories that should be considered in the selection of directors (e.g., medical, legal, financial) and provided a copy of the statement to the Minister responsible for the Workers' Compensation Act.
- The directors are protected from liability under section 167(b) of the Workers' Compensation Act which states "*no person may bring an action or other proceeding for damages in any court of law against any member of the Board of Directors.*" Such protection should assist in the appointment of qualified individuals who may otherwise have had concerns about personal liability. However, care must be taken to ensure the absence of legal liability does not result in complacency toward the fulfilment of Board responsibilities.
- Board of Directors meetings are regularly attended by all directors.
- New members of the Board receive an orientation to help them understand the WCB and its operations, as well as to clarify their role and responsibilities as directors. They are also encouraged to attend the Association of Workers' Compensation Boards of Canada College during their first year on the Board.
- Directors are encouraged to attend additional training sessions at the annual congress of the Association of Workers' Compensation Boards of Canada. Individual directors have attended other seminars addressing matters of importance to the WCB.
- There are regular and timely updates provided by WCB staff on the financial, investment and program operations of the WCB, and directors can ask questions to further their understanding of WCB-related issues.
- Board meetings are held in locations outside of Halifax twice a year. These meetings enable directors to meet with local stakeholder groups (e.g., Chambers of Commerce, injured workers groups) and to tour facilities related to the work of the WCB (e.g., a factory or physiotherapy centre). These occasions provide directors with an understanding of issues and concerns as perceived by the individuals directly affected.

Recommendations for Improvement

4.3 In conducting our examination of the governance structure and processes of the WCB we observed areas where governance could be strengthened.

- The position of chair of the Board has been vacant since May 2001. The deputy chair has led Board and committee meetings since that time. The position of chair is important to the Board's functioning and should be filled by Executive Council as soon as possible after a vacancy occurs.

- Members of the Board of Directors are appointed by Order in Council. A goal in selecting new members would be to ensure individuals have the necessary knowledge, skill and abilities to fulfill their responsibilities as Board members. The Board of Directors could assist in this process by preparing a description of the requirements and responsibilities of each Board position (chair, deputy chair and director) and providing the descriptions to the Minister responsible for the Workers' Compensation Act. These descriptions should also be provided to prospective members to help them understand the role, responsibility and time commitment of the position.

- The Workers' Compensation Act stipulates that director terms are not to exceed four years, and that the term of chair and deputy chair not exceed five years. Directors, including the chair and deputy chair, may be reappointed. However, directors are currently being appointed to serve three-year terms. This term may be reasonable when a director is being reappointed, but a new director has a considerable learning curve to overcome before becoming totally familiar with and effective in his/her oversight role. When a new director is being appointed, consideration should be given to the maximum terms permitted by legislation if this is acceptable to the person being asked to join the Board.

- Seven of the Board's nine members will have their term expire during the period December 31, 2002 to December 31, 2003. Director terms should be staggered to the extent possible to enable continuity of knowledge when Board turnover occurs. As well, when new members are appointed, it is advantageous to give sufficient advance notice to enable them to receive an orientation to the WCB and its issues before their terms officially begin.

- There is regular monitoring of the performance of the administration of the WCB, but there has been no formal evaluation of the effectiveness of its governance function. The performance of the Board, and/or individual directors, should be evaluated on a regular basis. Specific criteria should be developed against which performance can be assessed and a policy should be developed on how the evaluation will be administered (e.g., self-evaluation, use of consultants).

- The per diems paid to directors are authorized by Orders in Council, which generally indicate that payments are to be made for time spent attending Board or committee

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meetings. The amounts paid have not changed in many years and Board members are not aware of any review of the appropriateness of the amounts. Also, we observed that Board policy provides for payment of per diems for time spent on Board business other than attending meetings (e.g., preparing for meetings, attending seminars, travel). The policy for remunerating WCB directors should be researched, updated if necessary, and formally approved by the Board and government. Any inconsistencies between policy and Orders in Council should be rectified.

- The directives governing the reimbursement of director expenses are contained in several policies and guidelines. We found several minor discrepancies in our review of a sample of expense claims, both in terms of mathematical correctness and compliance with policy. We recommend that director expense policy be consolidated into a single comprehensive document, and that expense claims be given greater scrutiny before payment to ensure mathematical correctness and compliance with Board policy.

- To ensure openness and fair treatment within the Board, a summary of all payments to or on behalf of the Chief Executive Officer, Executive Corporate Secretary and individual Board members should be reported to the Board on at least an annual basis. The summary should itemize payments according to logical types, such as salary, per diem, expenses, travel advances, charges made directly to the WCB, workers' compensation benefits, and pay in lieu of vacation.

Purpose and Interests Served

4.4 Effective governance requires directors who understand their purpose and whose interests they represent. Factors that would foster this characteristic include an appropriate method of appointing directors, good understanding by directors of the role and responsibilities of governance, and specific policies on the duties and expectations of the Board, committees, and individual directors.

Observations

4.5 During our audit of the Workers' Compensation Board, we observed the following instances of good governance structure or practice.

- Board members are appointed by Order in Council. Board members and management are not involved in selecting other Board members.
- Board members expressed to us an understanding and acceptance of their responsibility for meeting the needs of WCB clients while ensuring effective functioning of the WCB.
- No member of WCB management is a Governor in Council appointed member of the Board of Directors or a voting member of one of its committees.
- Directors have received training on governance through the Association of Workers' Compensation Boards of Canada and the Conference Board of Canada, as well as publications dedicated to governance issues.
- Board policies are reviewed on a regular basis and directors have ready access to all policies.
- Decisions of Board committees must be recommended to and ratified by the full Board.
- Terms of reference for two of the three standing committees have been developed and approved by the Board.
- The Board has crafted organizational beliefs and operational principles to provide direction for members of the Board and staff of the WCB.
- A conflict of interest policy was approved by the Board in 1992.

Recommendations for Improvement

4.6 In conducting our examination of the governance structure and processes of the WCB we observed areas where governance could be strengthened.

- Based on our survey and interview of Board members, and our review of Board-related documentation, we observed that there is significant divergence on many important issues before the Board. Many, if not most, issues pertain to the manner in which the Board performs its governance role. Whereas it is expected that not all directors on the Board will agree on all issues, we believe major disagreements have negatively impacted the productivity of the Board. We recommend that the Board address the issue of Board cohesiveness.

- In the 1996 Annual Report of the Auditor General we reported that the Board was in the initial stages of developing a process to examine its governance structure and processes. Some efforts have been made in recent years, but there has not been significant progress. Comments were made to us about the appropriateness of waiting for the appointment of the new chair. The Board should formalize, in the near future, its governance structure and processes and prepare Board-level policies on the respective responsibilities of the Board, chair, deputy chair, directors, as well as the various committees. Since there is no indication of when a new chair will be appointed, we see no reason to further delay this important project.

- After the Board formally establishes its governance structure and processes, it should implement a process to ensure they are reviewed and updated on a regular basis.

- The Governance Committee is the only committee of the Board which has not had its terms of reference approved by the Board. We recommend this be done as soon as possible.

- At the time of our audit the Board was comprised of a deputy chair, an equal number of members representing labour and employers, as well as two members who represent the public-at-large. The representatives of labour and employers have voting rights but the members 'at-large' do not. The chair, or deputy chair if sitting as chair of a meeting, may vote in the case of a tie vote. At full complement, the Board has ten members, of which only six have regular voting rights. We recommend that the Board examine voting rights with the purpose of maximizing equality among members in authority and responsibility. Because voting rights and Board membership are outside of the control of the Board, recommendations should be forwarded to the Minister responsible for the Workers' Compensation Act.

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- Currently, the deputy chair of the Board sits as chair of each of the three standing committees, as did the past chair before his term expired. In order to promote greater participation of directors in the governance process, we recommend consideration be given to appointing other Board members as committee chairs.

- The Board's conflict of interest policy was prepared in 1992. We noted that a number of directors were unfamiliar with the existence or form of the policy. The Board should review the policy and ensure it is provided to all new members as soon as they join the Board. Further, consideration should be given to having directors state in writing each year whether or not they have any conflicts impacting their role and responsibilities as a director of the WCB.

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Objectives and Strategies

4.7 Effective governance requires directors who understand the objectives and strategies of the organization they govern. Factors that would foster this characteristic include appropriate discussion and approval of organizational mission, objectives and strategies, as well as regular reporting by management on organizational performance with respect to its strategic plan.

Observations

4.8 During our audit of the Workers' Compensation Board, we observed the following instances of good governance structure or practice.

- The Board has given appropriate attention to and formally approved the mission statement and strategic/long-term business plan of the WCB.
- Each year, the long-term business plan is updated by management and reviewed and approved by the Board, along with the annual budget.
- The Audit and Finance Committee and the full Board of Directors receive regular updates from management on the implementation and achievement of the business plan and budget.
- The Investment Committee and the full Board of Directors receive regular updates from management on the WCB's investment activities.
- Directors have an opportunity to develop a good understanding of the WCB and its issues through their initial orientation, management presentations, briefing materials, and attendance at industry-related seminars and conferences.

Recommendations for Improvement

4.9 In conducting our examination of the governance structure and processes of the WCB we observed areas where governance could be strengthened.

- The WCB mission statement, in part, states *"The mission of the WCB is to co-ordinate the workers' compensation system..."* Some directors expressed concern about the statement because they do not see the WCB as being responsible for co-ordinating the whole system and other participants (see paragraph 2.6 on page 4) have not expressed agreement with this role. We recommend the Board examine this issue, in conjunction with the following recommendation.

- The 1998 Report of the Auditor General (Chapter 16) includes a report on an audit of the WCB conducted by Grant Thornton Management Consultants on behalf of the Auditor General. One recommendation of the audit (number 28, page 16) was that strategic planning encompass the whole workers' compensation system, and not just its individual components. System-wide planning of this nature could address the issue of the WCB's mission statement discussed above. Further, the Workers' Compensation Review Committee 2002 final report (page 258) recommends, in part:

> *Amend the act to reconstitute the board of directors of the Workers' Compensation Board to have all the responsibilities of the current board of directors plus governing oversight of the Occupational Health and Safety Division, Workers' Advisers Program and Workers Compensation Appeals Tribunal. The deputy minister of Environment and Labour and the chief appeals commissioner are to be added as non-voting members of the board.*

We recommend the Board, in consultation with government and other system participants, explore ways of better coordinating and planning for (i.e., governing) the whole workers' health, safety and compensation system.

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Appropriate Information

4.10 Effective governance requires directors who know and obtain the information they require to exercise their responsibilities. Factors that would foster this characteristic include a good understanding of the mandate and objectives of the organization, an understanding of how management can best report on the achievement of objectives, setting specific requirements for the information that management is to provide to directors to report on organizational performance, and obtaining independent assurance on the veracity of certain of the information provided.

Observations

4.11 During our audit of the Workers' Compensation Board, we observed the following instances of good governance structure or practice.

- The WCB has formal objectives which are monitored by the Board using corporate performance measures approved by the Board. These objectives and performance measures are included in the annual report of the WCB.
- The Board receives updates from management on the achievement of the business plan, budget and investment plan, as well as on current issues, management of organizational risks and effectiveness of internal control.
- The Board has a full-time Executive Corporate Secretary who is responsible for ensuring timely communication between the organization and the Board. Most directors indicated that their information requirements are met being met.
- Directors discuss and challenge information being presented by management at Board meetings.
- Standing committees regularly report to the Board on the results of deliberations and seek Board approval of decisions made.
- The internal auditor of the WCB attends meetings of the Audit and Finance Committee. Audit plans are reviewed and approved by the committee, and all reports of the internal auditor are reviewed by the committee.
- The Board meets with the external auditors to discuss the results of the annual financial statement audit. The Audit and Finance Committee meets with the external auditors earlier in the year to discuss audit plans. The external auditor reports to the Audit and Finance Committee on auditor independence issues and the scope of any non-audit work to be performed.

- The Audit and Finance Committee periodically conducts a competition to select a firm to audit the WCB's annual financial statements. The committee recommends a firm to the Board for final approval.

- The Board has investment policies and objectives and the Investment Committee meets periodically with investment advisors and fund managers to review their performance in relation to objectives.

Recommendations for Improvement

4.12 In conducting our examination of the governance structure and processes of the WCB we observed areas where governance could be strengthened.

- We noted some dissatisfaction among Board members with the significant amount of time spent and detail provided by management in their presentations to the Board. There were also concerns expressed about management staff other than the CEO being present for significant portions of meetings. The Board should formally establish the types and extent of information required at its meetings and provide specific guidelines to management. In addition, the Board should identify when management staff should be present during Board meetings.

- It is important to maintain the independence of the internal audit function from the persons who are responsible for the operations audited. The internal auditor of the WCB reports to the Chief Executive Officer. One means of ensuring independence of the function from management would be to have the internal auditor managed directly by the Audit and Finance Committee. An alternative would be for the committee to routinely review the internal auditor's job responsibilities, reporting relationships, performance evaluations and remuneration structure to ensure the internal audit function is primarily accountable to the committee and functions in as objective manner as possible.

Act to Ensure Effectiveness

4.13 Effective governance requires directors who, once informed, are prepared to act to ensure the organization's objectives are met and that performance is satisfactory. Factors that would foster this characteristic include directors asking questions to understand issues being discussed, making decisions based on the information reported and the welfare of the organization and its stakeholders, and evaluating the performance of the Chief Executive Officer on a regular basis.

Observations

4.14 During our audit of the Workers' Compensation Board, we observed the following instances of good governance structure or practice.

- The number of directors appointed to govern the WCB appears reasonable.
- Directors express a clear understanding of the interests they serve.
- The Board gives a reasonable amount of time to its governance responsibilities. Meetings spanned 24 days in calendar year 2001.
- Directors are able to request an item be put on future Board agendas by contacting the chair, CEO or Executive Corporate Secretary. The Board sets an annual agenda (i.e., a schedule of significant topics and the dates of the meetings in which they will be discussed) and monitors progress against it. Items not completed are carried forward on the agenda.
- The Board deals with issues such as strategic planning, policy development and performance monitoring, but does not become involved in day-to-day management-level decisions.
- The Board sets annual performance objectives for the Chief Executive Officer and there is a formal process for the evaluation of the CEO's performance by the Board each year.

Recommendations for Improvement

4.15 In conducting our examination of the governance structure and processes of the WCB we observed areas where governance could be strengthened.

- The Board's philosophy is to attempt to arrive at consensus on issues, and as a consequence, it conducts formal votes on a limited number of issues. However, we believe the minutes of Board and committee meetings do not adequately document all of the significant deliberations and decisions of the Board. We recommend that minutes be enhanced to provide a record of all important deliberations, whether or not a vote occurs or a consensus decision is made.

- The Board and committees regularly hold in-camera sessions to discuss sensitive matters. No minutes or other records are maintained for these sessions. We believe there is a need for the Board and its committees to demonstrate due diligence at all meetings, and that privacy does not preclude record keeping. Minutes should be produced for in-camera meetings.

- The setting and approval of the Board's agenda is generally done outside of Board meetings. Many, if not most, governance bodies seek acceptance of an agenda from the whole body so that there is wide participation in deciding which issues come before the group. In our opinion, the Board should formally approve its agenda at the beginning of each meeting and, as a routine practice, enable directors to request that the Board consider items for addition to the agenda, either for the current or future meetings. We believe the same process should be used for committee meetings.

- Although there are documented performance expectations for the Chief Executive Officer, there is nothing describing the position's roles and responsibilities with respect to the Board and the governance function. These roles and responsibilities should be determined, documented and agreed to by both the CEO and the Board. This should include a clear understanding of the role of the CEO with respect to discussing issues with individual directors, during and/or outside of Board meetings, while the issues are under deliberation by the Board.

- We found that all Board members had a general understanding of the remuneration package for the current Chief Executive Officer, but many had not seen the contract or were not aware of all of the details at the time of our audit. The terms and conditions of the CEO's employment are currently under review by the Governance Committee. Once finalized and agreed to by both the CEO and the Board, all directors, including new members in the future, should be made aware of the terms and conditions of the CEO's employment.

- We did not observe a formal approach to succession planning for the position of Chief Executive Officer. We recommend that the Board develop a description of the qualifications required for the CEO position, and establish procedures for the recruitment and selection of a new CEO which can be implemented if a vacancy occurs.

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Accountability Obligations

4.16 Effective governance requires directors who fulfil their accountability obligations to those whose interests they represent by reporting on their organization's performance. Factors that would foster this characteristic include directors deliberating about the most effective means of reporting on the performance of the organization, understanding whose interests they serve and to whom they are accountable, and providing timely, relevant and accurate reporting to these individuals and groups.

Observations

4.17 During our audit of the Workers' Compensation Board, we observed the following instances of good governance structure or practice.

- The Board has a formal policy for communicating to stakeholders.
- The Board provides appropriate challenge to the information being included in the annual report and provides final approval before release.
- The annual report of the WCB is produced approximately three months after year end and is available to anyone who requests a copy or visits the WCB's web site. The report is comprehensive and includes financial and non-financial performance measures.
- The annual financial statements of the WCB are audited and included in the annual report.
- Senior management compensation and per diem payments to directors are disclosed in the WCB's 2001 annual report, in a note to the financial statements.
- A significant amount of planning, performance and other information can be accessed through the WCB's web site.
- There are regular meetings of the chair and CEO of the WCB with the Minister responsible for the Workers' Compensation Act.

Recommendations for Improvement

4.18 In conducting our examination of the governance structure and processes of the WCB we observed areas where governance could be strengthened.

- Generally, Board members cited the same stakeholders when asked about the Board's accountability, and government was always cited. However, new legislation in 2001 complicated the WCB's accountability to government by classifying the WCB as a government agency which must present its business plan and budget to government's Treasury and Policy Board for approval. The Board's accountability relationship is now split between the Minister responsible for the Workers' Compensation Act and a committee of the Executive Council (i.e., Treasury and Policy Board). We recommend the Board meet with senior government officials to clarify its reporting relationship with government.

- The 2000 annual report of the WCB included a number of graphs portraying performance in various areas of WCB operations. Many of the graphs contained an indication of the organization's performance target. The 2001 annual report contains performance information in the form of graphs, but does not include performance targets. In addition, there is little discussion in the 2001 annual report of the reasons for changes in non-financial performance. We recommend that the practice of presenting performance targets in annual reports be resumed, and that there be more discussion of performance trends and the success of the Board in meeting targets.
- The annual report of the WCB contains a section on governance in which the mandate, structure and composition of the Board of Directors are described. We recommend the information presented in the annual report be expanded to disclose more of the governance practices of the WCB. Consideration should be given to summarizing the major approvals required of the Board (e.g., approval of annual business plan and budget), terms of reference and membership of committees, practices for assessing Board of Directors' performance, and measures for receiving stakeholder feedback. Also, there should be a cross-reference to where information on remuneration of Board members is presented in the annual report.

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V. CONCLUDING REMARKS

5.1 We found that the Workers' Compensation Board of Nova Scotia has a formal governance function which plays an active role in directing the organization's operations.

5.2 There is appropriate attention to the development of knowledge and skills among Board members and there appears to be good commitment by members to the work of the Board. More attention needs to be given to appointment and remuneration of Board members and evaluation of the effectiveness of the Board in fulfilling its governance responsibilities.

5.3 Board members have a good understanding of their purpose and the interests they serve. However, there needs to be more attention given to defining the governance practices the Board wishes to follow.

5.4 The Board is involved in developing objectives and strategies for the WCB. However, there are several groups involved in the workers' compensation system in addition to the WCB and we see a need for planning and coordination for the whole system.

5.5 Board members receive a large amount of performance and other information to help them in their deliberations, and there are audit functions to provide assurance on information received. However, there is a need to better define the exact types, extent and form of information directors receive from management, and to improve monitoring of the internal audit function.

5.6 The Board of Directors has practices to promote effectiveness in directing the business of the WCB, and commits reasonable amounts of time to this responsibility. There is room for improvement in the documenting of Board and committee meetings and the formalizing of the role, responsibilities and employment terms of the CEO.

5.7 The Board fulfils its accountability responsibilities through the provision of comprehensive reports to its stakeholders. We recommended more attention be given to governance matters and performance targets and accomplishments in the WCB's annual report.

Appendix 1

Summary of Recommendations

Knowledge, Ability and Commitment

1. The position of chair should be filled by Executive Council as soon as possible after a vacancy occurs.

2. The Board should prepare a description of the requirements and responsibilities of each Board position (chair, deputy chair and director) and provide the descriptions to the Minister responsible for the Workers' Compensation Act. The Board should provide descriptions to prospective members to help them understand the role, responsibilities and time commitment of the position.

3. When a new director is being appointed, government should give consideration to the maximum terms permitted by legislation if this is acceptable to the person being asked to join the Board.

4. Director terms should be staggered to the extent possible to enable continuity of knowledge when Board turnover occurs. When new members are appointed, sufficient advance notice should be provided to enable them to receive an orientation to the WCB and its issues before their terms officially begin.

5. Performance of the Board, and/or individual directors, should be evaluated on a regular basis. Specific criteria should be developed against which performance can be assessed and a policy should be developed on how the evaluation will be administered (e.g., self-evaluation, use of consultants).

6. The policy for remunerating WCB directors should be researched, updated if necessary, and formally approved by the Board and government. Any inconsistencies between policy and Orders in Council should be rectified.

7. Director expense policy should be consolidated into a single comprehensive document, and expense claims should be given greater scrutiny before payment to ensure mathematical correctness and compliance with Board policy.

8. A summary of all payments to or on behalf of the Chief Executive Officer, Executive Corporate Secretary and individual Board members should be reported to the Board on at least an annual basis. The summary should itemize payments according to logical types, such as salary, per diem, expenses, travel advances, charges made directly to the WCB, workers' compensation benefits, and pay in lieu of vacation.

Purpose and Interests Served

9. The Board should address the issue of Board cohesiveness.

10. The Board should formalize, in the near future, its governance structure and processes and prepare Board-level policies on the respective responsibilities of the Board, chair, deputy chair, directors, as well as the various committees.

11. The Board should implement a process to ensure governance structure and processes are reviewed and updated on a regular basis.

12. The Board should approve terms of reference for the Governance Committee as soon as possible.

13. The Board should examine voting rights with the purpose of maximizing equality among members in authority and responsibility. Because voting rights and Board membership are outside of the control of the Board, recommendations should be forwarded to the Minister responsible for the Workers' Compensation Act.

14. The Board should consider appointing Board members other than the chair as committee chairs.

15. The Board should review its conflict of interest policy and ensure it is provided to all new members as soon as they join the Board. Further, consideration should be given to having directors state in writing each year whether or not they have any conflicts impacting their role and responsibilities as a director of the WCB.

Objectives and Strategies

16. The Board should re-examine the WCB's Mission Statement, in conjunction with the following recommendation.

17. In consultation with government and other system participants, the Board should explore ways of better coordinating and planning for (i.e., governing) the whole workers' health, safety and compensation system.

Appropriate Information

18. The Board should formally establish the types and extent of information required at meetings and provide specific guidelines to management. In addition, it should identify when management staff should be present during Board meetings.

19. The Finance and Audit Committee should take additional steps to ensure the internal audit function is primarily accountable to the committee and functions in as objective manner as possible.

Act to Ensure Effectiveness

20. Minutes should be enhanced to provide a record of all important deliberations, whether or not a vote occurs or a consensus decision is made.

21. Minutes should be produced for in-camera meetings.

22. The Board should formally approve its agenda at the beginning of each meeting and, as a routine practice, enable directors to request that the Board consider items for addition to the agenda, either for the current or future meetings. The same process should be used for committee meetings.

23. Roles and responsibilities of the Chief Executive Officer with respect to the Board and the governance function should be determined, documented and agreed to by both the CEO and the Board. This should include a clear understanding of the role of the CEO with respect to discussing issues with individual directors, during and/or outside of Board meetings, while the issues are under deliberation by the Board.

24. All directors, including new members in the future, should be made aware of the terms and conditions of the CEO's employment.

25. The Board should develop a description of the qualifications required for the CEO position, and establish procedures for the recruitment and selection of a new CEO which can be implemented if a vacancy occurs.

Accountability Obligations

26. The Board should meet with senior government officials to clarify its reporting relationship with government.

27. The practice of presenting performance targets in annual reports should be resumed, and there should be more discussion of performance trends and the success of the Board in meeting targets.

28. Information presented in the annual report should be expanded to disclose more of the governance practices of the WCB. Consideration should be given to summarizing the major approvals required of the Board, terms of reference and membership of committees, practices for assessing Board of Directors performance, and measures for receiving stakeholder feedback. Also, there should be a cross-reference to where information on remuneration of Board members is presented in the annual report.

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Appendix 2

Workers' Compensation Board of Director Response to Auditor General Governance Audit

The Board of Directors thanks the Office of the Auditor General for the Audit of Governance Structure and Processes of the Workers' Compensation Board of Nova Scotia. Governance is a subject that the Board of Directors recognizes as important not only to the WCB but to the entire Workers' Compensation system and the Board welcomes the insights of the Auditor General.

There are many aspects of the Board of Directors' governance model that are working well. This is noted in the audit report as areas where the auditors observed instances of good governance. However, the Board of Directors does recognize that, as with any model, improvements and further development can be made.

The Board of Directors commenced a review of its governance model in the fall of 2001. The Board of Directors identified several aspects of governance that require further development. Many of the recommendations of the Auditor General's governance audit correspond to these issues. The Board of Directors will consider the audit recommendations that are directed to the Board of Directors as part of the review process.

Since June 1, 2001 the position of Board Chair has been vacant. The Board of Directors believes that this position has a crucial role in the governance process and that the person appointed to this position will have vital input into the development of the governance model. The review of the Board of Directors' governance model will resume when a new Chair is appointed. The Board notes that the Auditor General encourages the Government to move ahead with the appointment as soon as possible.

The audit team noted to the Board of Directors that the recommendations are considered best practices, however an organization should consider them within their environment and specific context as one model does not fit or meet the needs of every situation. The Board of Directors agrees and will consider the recommendations within the specific context of a bi-partite Board of Directors of a Workers' Compensation Board.

A table of Board of Directors comments to the specific recommendations is attached.

Board of Directors Response

Subject	***Recommendation (Paraphrased from report)***	***Agency to Respond***	***WCB Board of Director Response and Comments***
Knowledge, Ability and Commitment *Section 4.3, Page 8*	*Position of Chair of the Board be filled as soon as possible*	*Gov't*	
Section 4.3, Page 8	*Current Board of Directors should establish a written description of their requirements and responsibilities as (Chair, Deputy Chair and Director) and provide these descriptions to the Minister so that he/she has a point of reference to share with prospective members in helping them to understand the role, responsibility and time commitment of the respective positions.*	*BoD of WCB*	- *Currently have skill set in place for all members that was developed in 1999.* - *This part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.*
Section 4.3, Page 8	*When a new director is being appointed consideration should be given to maximum terms permitted by legislation if this is acceptable to the individual being asked to join the board. (This is recommended due to the amount of time it takes for new members to become totally familiar and effective in their oversight role.)*	*Gov't*	- *Provide government with chart showing term periods for members.* - *In past there have been staggered terms, recognizing that in the private sector the average term on a Board is around 7 years (Conf. Brd. Of Can. data). In the past initial terms and reappointments have varied to facilitate the staggered replacement of members.*
Section 4.3, Page 8	*Expiration of Director's terms should be staggered to avoid any possibility of having more than one term ending within the same period of time. This will ensure continuity of knowledge when Board turnover occurs. It is also suggested that new members be given the advantage to receive an orientation to the WCB and its issues in sufficient advance to the commencement of their official term as Director.*	*Gov't*	- *Province government with chart showing term periods for members.*

Subject	*Recommendation (Paraphrased from report)*	*Agency to Respond*	*WCB Board of Director Response and Comments*
Section 4.3, Page 8	*The performance of the Board, and/or individual directors, should be evaluated on a regular basis. Specific criteria should be developed against which performance can be assessed and a policy should be developed on how the evaluation will be administered (e.g., self-evaluation, use of consultants).*	*BoD of WCB*	*- This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.* *- Governance Committee will review models and make recommendation to the Board of Directors.*
Section 4.3, Page 9	*The policy for remunerating WCB Directors should be researched, updated if necessary, and formally approved by the Board and government. Any inconsistencies between policy and Orders-in-Council should be rectified.*	*Gov't* *BoD of WCB*	*- This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.*
Section 4.3, Page 9	*It is recommended that the director expense policy be consolidated into a single comprehensive document, and that expense claims be given greater scrutiny before being paid to ensure they are mathematically correct and expenses being claimed are in full compliance with Board policy.*	*BoD of WCB*	*- This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.* *- Review with internal auditor to ensure consistency.* *- Current director expense policy to be updated (Governance Comm.)*
Section 4.3, Page 9	*To ensure openness and fair treatment within the Board, it is recommended that a summary of all payments to or on behalf of the Chief Executive Officer, Executive Corporate Secretary and individual Board member should be reported to the Board on at least an annual basis. The summary should itemize payments according to logical types such as salary, per diem, expenses, travel advances, charges made directly to the WCB, Workers' Compensation Benefits and pay in lieu of vacation.*	*BoD of WCB*	*- 2001 Annual report include a schedule of BoD and Senior executive salary.* *- The Board agrees as the External Auditors currently review disbursements to the CEO & CFO; will now add Corporate Secretary to this audit.*

Subject	***Recommendation (Paraphrased from report)***	***Agency to Respond***	***WCB Board of Director Response and Comments***
Purpose and Interests Served *Section 4.6, Page 11*	*It was observed that there is significant divergence on many important issues before the Board, including the manner in which the Board performs its governance role. It is recommended that the Board address the issue of Board cohesiveness.*	*BoD of WCB*	- *BoD had an external consultant to work on governance issues; awaiting input of new Chair to continue given the importance of that role.* - *Will continue with governance development sessions with new Chair.*
Section 4.6, Page 11	*It is recommended that the Board formalize, in the near future, its governance structure and processes and prepare Board-level policies on the respective responsibilities of the Board, chair, deputy chair, directors, as well as the various committees.*	*BoD of WCB*	- *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.*
Section 4.6, Page 11	*Once the Board has formally established its governance structure and processes, it should implement a process to ensure they are reviewed and updated on a regular basis.*	*BoD of WCB*	- *Regular cycle of Governance documentation review could be established with the Governance Comm.*
Section 4.6, Page 11	*It is recommended that the Governance Committee have its terms of reference approved by the Board as soon as possible.*	*BoD of WCB*	- *Draft terms currently in use. This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.*
Section 4.6, Page 11	*It is recommended that the Board examine voting rights with the purpose of maximizing equality among members in authority and responsibility. Because voting rights and Board membership are outside of the control of the Board, recommendations should be forwarded to the Minister.*	*Gov't* *BoD of WCB*	- *The Board of Directors disagrees. The non-voting status of the Public at Large members is important for the consensus building model. By maintaining the neutrality of the non-voting members, they do not have a perception of bias to either employers or workers. As the non-voting members may be future candidates for the position of Chair, this perception of non-bias is important. Not possessing a vote has not reduced the participation of the non-voting member, but in fact it has strengthened it as their input is fully considered in Board of Director deliberations.*

Subject	*Recommendation (Paraphrased from report)*	*Agency to Respond*	*WCB Board of Director Response and Comments*
Section 4.6, Page 12	*It is recommended that consideration be given to appointing other Board members as committee chairs in order to promote greater participation of directors in the governance process.*	*BoD of WCB*	- *At the June 7th meeting, the Board of Directors approved the chairing of committees by the non-voting member (public at large members and the Deputy Chair) appointed to the Committees by the Chair.*
Section 4.6, Page 12	*It is recommended that the Conflict of Interest policy be reviewed by the Board and provided to all new members as soon as they join the Board. Consideration should also be given to having directors state in writing each year whether or not they have any conflicts impacting their role and responsibilities as a director of the WCB.*	*BoD of WCB*	- *Conflict of interest guidelines has been given to all Board members as part of their orientation.* - *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.* - *Could be signed by members each year.*
Objectives and Strategies *Section 4.9, Page 13*	*It is recommended that the Board of Directors examine the WCB Mission Statement regarding "The mission of the WCB is to co-ordinate the workers' compensation system..." as other system participants have not expressed agreement with this role.*	*BoD of WCB*	- *The BoD, as part of the financial planning cycle has reviewed this statement originally approved by the BoD in 1995 (published in 1994 Annual Report).* - *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process; particularly in light of the W.C. Review Report.*
Section 4.9, Pages 13 & 14	*Paraphrased from the report: It is felt that system-wide strategic planning (previously recommended in the 1998 Auditor General's report - no. 28 pg. 16) could address the issue of the WCB's mission statement. It is recommended to have the Board, in consultation with government and other system participants, explore ways of better coordinating and planning for (i.e., governing) the whole workers' health, safety and compensation system. Reference the recommendation of the WC Review Committee Report (pg. 258).*	*Gov't* *BoD of WCB*	- *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process; particularly in light of the W.C. Review Report.*

Subject	***Recommendation (Paraphrased from report)***	***Agency to Respond***	***WCB Board of Director Response and Comments***
Appropriate Information *Section 4.12, Page 16*	*It is recommended that the Board formally establish the types and extent of information it requires at its meetings and provide specific guidelines to management. In addition, the Board should identify when management staff should be present during Board meetings.*	*BoD of WCB*	- *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.*
Section 4.12, Page 16	*It is important to maintain the independence of the internal audit function from the persons who are responsible for the operations audited. The internal auditor of the WCB reports to the Chief Executive Officer. One means of separating the function from WCB management would be to reorganize the function so that it reports directly to the Audit & Finance Committee. An alternative would be for the committee to routinely review the internal auditor's job responsibilities, reporting relationships, performance evaluations and remuneration structure to ensure the internal audit function is primarily accountable to the committee and can function in as objective manner as possible.*	*BoD of WCB*	- *The Audit & Finance Comm. does review and approve annual audit plan.* - *Internal Auditor attends Audit & Finance Committee meetings (may not attend specific items if not relating to duties) and has private meetings with A&F with no other staff present.* - *Audit reports have been given to A&F as presentations, now ensuring full report provided to A&F as well.*

Subject	*Recommendation (Paraphrased from report)*	*Agency to Respond*	*WCB Board of Director Response and Comments*
Act to Ensure Effectiveness *Section 4.15, Pages 17 & 18*	*It is recommended that the minutes of all Board and Committee meetings be enhanced to provide a record of all the important deliberations, whether or not a vote occurs or a consensus decision is made.*	*BoD of WCB*	- *All decisions of the BoD are recorded in the minutes.* - *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.*
Section 4.15, Page 18	*It is recommended that minutes be produced for in-camera meetings in order for the Board and its committees to demonstrate its due diligence at all of its meetings.*	*BoD of WCB*	- *Chair instructs Corp. Sec. to record any actions or decisions resulting from in camera session.* - *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.*
Section 4.15, Page 18	*It is recommended that the Board formally approve its agenda at the beginning of each meeting and, as a routine practice, enable directors to request that the Board consider items for addition to the agenda, either for addressing at the current or future meeting. It is recommended that the same process be used for committee meetings.*	*BoD of WCB*	- *Board of Directors approves yearly agenda.* - *Each CEO report the next three months agenda is listed.* - *BoD members may add items by providing notice to Chair and Corp Sec. before one week prior to meeting; Chair has discretion to add urgent items at request of members.* - *The Board of Directors has added formal agenda approval to regular business of each meeting.*
Section 4.15, Page 18	*The roles and responsibilities of the CEO with respect to the Board and the governance function should be determined, documented and agreed to by both the CEO and the Board. This should include a clear understanding of the role of the CEO with respect to discussing issues with individual directors, during and/or outside of Board meetings, while the issues are under deliberation by the Board.*	*BoD of WCB*	- *Act and Board of Directors defines the role of the CEO; the annual performance plan identifies the current deliverables for the CEO.* - *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.* - *Governance Committee could develop written documentation as part of overall governance documentation.*

Subject	***Recommendation*** ***(Paraphrased from report)***	***Agency to Respond***	***WCB Board of Director Response and Comments***
Section 4.15, Page 18	*It is suggested that once the terms and conditions of the CEO's employment are finalized and agreed to by both the CEO and the Board, all directors, including new members in the future, should be made aware of the terms and conditions of the CEO's employment.*	*BoD of WCB*	- *Will be included in orientation package and review during yearly CEO evaluation.* *The contracts has been discussed and recorded in the minutes of the Board over the years. Currently the BoD, through the Governance Committee is seeking to clarify some points of the contract.*
Section 4.15, Page 18	*It is recommended that the Board develop a description of the qualifications required for the CEO position, and establish procedures for the search for and selection of a new CEO, which can be implemented if a vacancy occurs in the position.*	*BoD of WCB*	- *The Board of Directors has had discussions on the issue of CEO succession and will be developing a succession plan in the near future.*
Accountability Obligations *Section 4.18, Pages 19 & 20*	*It is recommended that the Board meet with senior government officials to clarify its reporting relationship with government.*	*Gov't* *BoD of WCB*	
Section 4.18, Page 20	*It is recommended that the practice of presenting performance targets in annual reports be resumed, and that there be more discussion of performance trends and the success of the Board in meeting targets.*	*BoD of WCB*	- *This has been the case in the past. It was a drafting oversight that the Corporate Performance Measures targets (for those measures that targets are set) were excluded in the 2001 Annual Report.* - *Will be included again in the next annual report.*
Section 4.18, Page 20	*It is recommended that the information presented in the annual report be expanded to disclose more of the governance practices of the WCB. Consideration should be given to discussing major approvals required of the Board (e.g., approval of annual business plan and budget), terms of reference and membership of the committees, practices for assessing Board of Directors performance, measures for receiving stakeholder feedback, and a cross-reference to where in the annual report information is presented on remuneration of Board Members.*	*BoD of WCB*	- *This is part of the governance model review. Once the process is complete these types of next steps are to be considered as part of the process.* - *Revised Governance section could include the material suggested in the 2002 annual report (for release in April 2003).*

7.

FINANCE - NOVA SCOTIA PUBLIC SERVICE LONG TERM DISABILITY PLAN TRUST FUND

BACKGROUND

7.1 The Nova Scotia Public Service Long Term Disability (LTD) Plan Trust Fund (the 'Plan') was established by Order in Council 85-1219 in 1985. The Plan was initially funded by a transfer of $13,126,860 from what was known as the Group Life Assurance Plan Premium Fund. Amounts had accumulated in that Fund from several sources including group life assurance experience rebates and Unemployment Insurance (now Employment Insurance) premium reductions.

7.2 The terms and conditions under which the Plan is administered are detailed in a Trust Agreement between the Nova Scotia Government and General Employees' Union (NSGEU), the Province, and the Trustees. Four Trustees are appointed from each of the Union and the Province and have joint responsibility for the operation and administration of the Plan. The Chair of the Board of Trustees alternates between representatives of the Union and the Province. The Union and the Province are known collectively as the Plan sponsors.

7.3 Participation in the Plan is defined in Schedules A and B to the Trust Agreement. The largest participating group is civil servants as defined in Section 2(g) of the Civil Service Collective Bargaining Act as well as non-bargaining civil servants. These represent 6,907 of the 12,297 participants in the Plan, or 56.2%, as of September 30, 2002. Other groups include certain staff at the Queen Elizabeth II Health Sciences Centre, members of the Canadian Union of Public Employees (CUPE) and employees of various crown entities such as Nova Scotia Innovation Corporation and Municipal Finance Corporation.

7.4 The employer (primarily defined as the Province of Nova Scotia) and employees each contribute 50% of the premiums for the Plan. Total premiums range from 3% to 4.5% of bi-weekly salary, with the majority contributing at a rate of 3.32%. Benefits are now set at 65% of salary to a maximum of $3,000 bi-weekly. Participation in the Plan is mandatory for Provincial employees, including staff and management of the Office of the Auditor General, except for certain part-time positions.

7.5 The LTD Office employs four full-time personnel. A private sector company administers claims eligible for benefits under the LTD Plan. This company has been the claims administrator since the Plan was established. Other service providers include an investment manager, an investment trustee and an actuary. The Plan's annual financial statements are audited by an external auditor.

7.6 This was our first audit of the N.S. LTD Plan Trust Fund.

RESULTS IN BRIEF

7.7 The following are the principal observations from our audit.

- After changes to the Plan implemented in May 2002, the unfunded liability for the N.S. Long Term Disability Plan Trust Fund is estimated to be $38.9 million at June 1, 2002. The impact of recent Plan changes designed to reduce this deficit over a 15-year period needs to be managed and closely monitored to ensure effectiveness. The Board of Trustees needs to develop a plan to accomplish this.
- We recommend that the impact of government and other employers' short-term illness (STI) policies and procedures on LTD claims be examined by the Public Service Commission (PSC). There is a need to integrate and coordinate aspects of these benefit programs to better facilitate back-to-work objectives. This may reduce claims incidence in LTD as well.
- A review of the Plan's governance function is required. This review should include a discussion of alternatives to the present arrangements to ensure the resulting Board structure addresses the concerns regarding fiduciary responsibility to current contributors and beneficiaries expressed by the Trustees.
- We commend the Board in its efforts to include performance evaluation in its proposed service contract for claims administration. This contract is currently under negotiation. In addition, we recommend that the Board develop a schedule for the periodic review of files (likely on a sample basis) as part of the overall evaluation of the claims administration function.
- An annual report is prepared for the Plan as required by the Trust Agreement. Future annual reports should clearly indicate the impact the recent changes have had in addressing the unfunded liability of the Plan.
- We recommend that the Trustees perform an analysis to determine whether services procured from external service providers result in due regard for economy and efficiency. If it is determined that these arrangements continue to be sole-sourced, this decision should be documented in the Board minutes.

AUDIT SCOPE

7.8 In 2001 we began an audit of the Nova Scotia Long Term Disability Plan Trust Fund. The summary objectives for this assignment were to assess the overall governance, accountability, and performance management of the Plan, and to conclude whether there is adequate:

- compliance with statutory and other enabling authorities or requirements;
- control systems, procedures and practices; and
- due regard for economy and efficiency.

7.9 General criteria were used to facilitate our review. These criteria were discussed with management at the LTD Office, the Board of Trustees and the Plan sponsors. The criteria are noted in Exhibit 7.1, along with our assessment of the extent to which each one was met. The Exhibit also includes our key suggestions for change. In order to implement the key suggestions noted in this Exhibit, the Board of Trustees needs to ensure the LTD Office is adequately staffed.

7.10 Our approach to this assignment consisted of interviews with management at the LTD Office, the current Board Chair, past Board Chairs and other Trustees. We interviewed the President of the NSGEU, and the current and past Commissioner of the Public Service Commission (formerly the Department of Human Resources) in their capacity as Plan sponsors. We also met with representatives from certain of the service providers to the Plan, and with selected staff at both the Department of Finance and the Public Service Commission. Finally, we conducted an extensive review of documentation on the Plan including a review of Board minutes from January 1990 to September 2002.

PRINCIPAL FINDINGS

Financial Condition and Funding Strategy

7.11 An actuarial liability update prepared for the Plan at June 1, 2002 indicates a liability of $63.8 million, subsequent to the May 2002 changes to the Plan. The market value of the Plan's assets at that date was $24.9 million. This yields an unfunded liability of $38.9 million. An actuarial valuation of the Plan was performed as at March 31, 2001, prior to the May 2002 changes. At that time, the unfunded liability was estimated to be $46.3 million.

7.12 A history of the actuarially-determined unfunded liability can be found in Exhibit 7.2. As can be seen from the information provided, the Plan had an unfunded liability at March 31, 1988, about two years after its inception. A full actuarial valuation of the Plan's assets and liabilities is performed periodically. The results of these valuations are reflected in this Exhibit.

7.13 Growth in the unfunded liability was offset by strong performance in the investment portfolio of the Plan in 1998. Recent changes to the Plan have reduced the unfunded liability to $38.9 million, as noted above. Prior to implementation of these changes in May 2002, the unfunded liability had risen to $52.1 million as at March 31, 2002. (See further details of these changes in paragraphs 7.19 to 7.23.)

7.14 Several factors have contributed to the Plan's current financial difficulties, including the following.

- We were informed that the Plan was intended to accommodate about 250 beneficiaries although we could not find documentation to support this statement. A chart describing the number of beneficiaries since 1986 is included as Exhibit 7.3. At September 30, 2002, there were 757 active claims (i.e., individuals receiving disability claim payments).

- LTD benefits do not commence until after short-term illness benefits expire. These benefits are available for 100 consecutive work days and are referred to as the elimination period for purposes of LTD. They are available to civil servants and certain other employees specified in Schedules A and B to the Trust Agreement. Further discussion of the possible impact of the STI period on LTD applicants is noted in paragraphs 7.28 to 7.31.

- A group with a high incidence rate joined the Plan in 1988. No provision was made for the costs associated with the members of this group who were on disability leave when they joined the LTD Plan. The Plan did not receive any payments directly associated with offsetting the value of the claim obligation assumed.

- In addition, the Plan's actuary suggested a premium rate for this group to reflect their disability incidence rate. It was ultimately decided by the Plan sponsors not to use this suggested rate due to the high monthly premiums. Instead premium rates for NSGEU contributors were increased to reflect the increased cost and risk associated with this group. These increased rates became effective March 1995.

- Recommendations of the Board of Trustees to deal with the declining financial position of the Plan have not been dealt with on a timely basis by the Plan sponsors. This is discussed further in paragraph 7.32.

7.15 The Board of Trustees and the Plan sponsors have undertaken initiatives in an attempt to deal with the unfunded liability. In 1996 a Joint Review Committee (JRC) was formed. The Committee consisted of members from the NSGEU and the Province and was established to review the overall operations and administration of the LTD Fund. The Committee issued a report to the Board of Trustees in 1999 which included recommendations on rehabilitation and other issues. The Committee noted that *"In general, a combination of short-term savings, and long-term operational, philosophical changes, is required for long-term survival. Most of all, there is a need for a fundamental shift in focus toward facilitating return to work, rather than protecting the status quo."*

7.16 In addition to making recommendations on the Plan, the JRC also requested a comparison study of LTD programs across Canada. The study was conducted by an independent consultant and indicated the following:

- By category of employment, the Nova Scotia LTD Plan experience ranged from 150% to over 500% of the claims incidence rates seen in other jurisdictions.
- There was no indication that comparable plans are having more success than the Nova Scotia LTD Plan in returning claimants to work and off LTD benefits.
- Benefits payable under the Nova Scotia LTD Plan did not appear to be significantly above those payable under other public sector programs.

7.17 *Funding strategy* - The most significant response to the financial condition of the Plan was the development of a funding strategy. The funding strategy was prepared by the (then) Executive Director and approved by the Board of Trustees in December 2000. The strategy was prepared based on a review of reports from the actuary and other consultants, and the recommendations of the JRC.

7.18 Recommendations related to eight areas were identified in the funding strategy. These are noted below:

- claims administration and management;
- integration with public service superannuation plans;
- prevention services (to prevent injury or illness before it occurs);
- coordination and communication (to assist all stakeholders in developing effective and efficient means of service delivery);
- evaluation of claims incidence (through statistical analysis and the development and implementation of disability management programs in the workplace);
- development of incentive programs (for example, penalizing higher incidence employers through higher premiums);

- modifications to benefit levels; and
- evaluation of claims administration process.

7.19 *Plan changes* - Effective May 2002, significant changes were made to the Plan in an effort to improve its financial condition and long-term viability. These amendments are noted in Exhibit 7.4.

7.20 The changes were proposed and analyzed through the fall and winter of 2001-02. There was collaboration between the Plan sponsors and the Board, although the sponsors ultimately approved the changes. As part of the discussion of alternatives, the Plan's actuary performed analyses using various costing factors. These analyses were used in determining the Plan changes. The implementation of the Plan changes included meetings with certain employers and a notification to employees of the changes.

7.21 We did not perform an independent review of the impact of the amendments on the Plan's unfunded liability. We have relied on the analysis provided by the Plan's actuary throughout the process.

7.22 We understand the Plan changes are expected to result in full funding of the N.S. LTD Plan in 15 years. Based on an unaudited statement of cash flows prepared by the LTD Office for the nine months ended September 30, 2002, monthly premiums are now sufficient to cover monthly claims. Further, management indicated that advances from the operating account to the investment account will take place in December 2002. It is evident the May 2002 changes to the Plan have already had a positive impact on the financial position of the Plan.

7.23 We were informed that the Plan sponsors have recently requested a review of the impact of one of the Plan changes. Concerns have been raised about the lack of coverage for employees after age 60. The actuary has provided a costing analysis to identify the impact of changes to this provision, including the impact on the 15-year amortization period. The analysis indicates the amortization period would increase. Given the current financial position of the Plan, any decision that would lengthen the time before the Plan is fully funded needs to be carefully considered.

7.24 *Benchmarks* - Trustees have agreed to develop funding strategy benchmarks in an effort to monitor the impact of the May 2002 Plan changes on the unfunded liability. These benchmarks would also provide the starting point for the analysis of any further changes to the Plan. We stress that these benchmarks should be developed in the near future and recommend that a suitable time frame (e.g., annual, semi-annual) be established for monitoring the impact of these changes. We note that the decision to establish benchmarks was based on a recommendation from the Plan's actuary.

Recommendation 7.1

We recommend that benchmarks to be established by the Trustees be included in a plan to monitor the impact of the recent Plan changes.

7.25 *Review of permanent claims* - The LTD Office has undertaken a review of approximately 460 claims on permanent disability status. The purpose of the review was to assess rehabilitation potential for these individuals. Although the review did not yield any change in status for these individuals, it did result in several recommendations. These include a review of all protocols, practices and decision-making criteria used by the claims administrator to ensure effectiveness and consistency with Plan guidelines related to adjudication, case management and rehabilitation. Recommendations from the LTD Office review related to recoveries (primarily from third parties) are discussed in more detail in paragraph 7.46 below.

Leave Management

7.26 As can be seen from Exhibit 7.4, the recent Plan changes are strictly financial in nature. None of the leave management proposals noted in the funding strategy were implemented. The actuary had also noted the need for leave management measures in the following excerpt from a letter summarizing the Plan changes:

> *".... it is imperative for the sponsors to put in place an effective disability prevention and management strategy. The recent history of the plan demonstrated an increase in claiming activity in recent years. It will therefore be necessary to put in an action plan to attempt to minimize new claims and to ensure the intervention and effective return to work strategies are put in place with respect to future claimants. This, if successful, will contribute in a meaningful way to resolving the financial difficulties currently faced by the LTD plan."*

7.27 This concern is also shared by several members of the Board. During the course of the audit, we interviewed Trustees to obtain their views on governance and other matters (see further discussion of this in paragraph 7.32). Several expressed concern that the approved changes to the Plan did not deal with claims administration issues such as rehabilitation. In addition, many noted that changes to the STI policies and practices of the Province, including intervention prior to application for LTD, are critical to the future viability of the Plan.

7.28 *Short-term illness* - A detailed review of STI policies and practices of the Province or other employers was beyond the scope of this audit. However, because of the potential impact of these policies and procedures on LTD claims, we discussed STI benefits with staff at the Public Service Commission (PSC - formerly the Department of Human Resources).

7.29 It is generally recognized in disability management that return-to-work initiatives are more successful in the early stages of disability. In most cases, neither the claims administrator nor the LTD Office are aware of possible LTD claims until the application for LTD benefits takes place. This is usually two to four weeks prior to the expiration of STI benefits which run for 100 work days. Therefore, intervention may not take place until almost five months after the individual has left work.

7.30 PSC indicated it has certain initiatives planned with respect to leave management, including STI. A draft policy entitled *Disability Management Policy* was prepared in 1995 but was not finalized, approved or implemented. In 2001, the PSC prepared a *Proposal for Strategic Management of Short-term Illness and Long-term Disability*. Funding for the proposal could not be secured.

Recommendation 7.2

We strongly recommend that the effectiveness of current short-term illness policies and practices, and their impact on LTD claims, be examined by the Public Service Commission. Further, there is a need to integrate and coordinate aspects of these benefit programs to better facilitate back-to-work objectives.

Governance, Accountability and Performance Management

7.31 We interviewed seven of the eight Board Trustees in early 2002. Our objective was to solicit responses from each of these Trustees on questions related to governance, accountability, and performance management. Unfortunately, we were unable to interview the remaining Trustee prior to her removal as Trustee (and Board Chair) by a Plan sponsor in May 2002.

7.32 *Governance* - We make the following observations about Plan governance.

- The Trust Agreement outlines roles and responsibilities for both the Trustees and the Plan sponsors. Each Trustee we interviewed felt clear about his or her role and responsibilities as a Board member, although none had received any training for the position. They all recognized that changes to the Plan were the responsibility of the Plan sponsors and that Trustee involvement with these changes was in recommending and implementing them.
- Each Trustee was concerned about individual ability to discharge fiduciary responsibility with respect to the Plan. Although the Trust Agreement establishes the powers of the Trustees to do what is necessary "*...to accomplish the objectives of the Plan and enable the employees to obtain benefits under the Plan in the most efficient and economical manner*", the Plan sponsors determine the nature and extent of benefits provided under the Plan and the contribution rates. This may limit the ability of the Trustees to effectively meet their responsibility in this regard.
- All Trustees expressed frustration with the time it has taken to make changes to the Plan. As noted previously, the Plan has been in financial difficulty since shortly after its inception in 1985. A review of correspondence maintained by a former Chair of the Board indicates that the Plan sponsors were informed of the financial situation of the Plan in 1993, and documentation supports that they were reminded of this in several of the following years.
- There is a difference of opinion between the Union and Management Trustees with respect to tendering for the services of the claims administrator. The matter had to be referred to the Plan sponsors for resolution in accordance with the Trust Agreement.

7.33 The issue of governance has been raised at the Board level, and it has been suggested that expertise be sought regarding the roles and responsibilities of a Trustee. We strongly support this initiative.

Recommendation 7.3

We recommend that an overall review of the governance structure and arrangements for the Plan be undertaken. This review should include a discussion of alternatives to the present arrangements to ensure the resulting Board structure addresses the concerns expressed by the Trustees surrounding fiduciary responsibility to the beneficiaries of the Plan, i.e., current contributors and claimants.

7.34 *Accountability and performance management* - Our audit plan included several criteria related to accountability and performance management, and our assessment of these is noted in Exhibit 7.1. In general, the Trustees felt they received adequate information to assess the financial condition and performance of the Plan, and that information provided to them by the LTD Office prior to Board meetings was adequate and timely. We noted that reports from service providers were given to the Board as required. The reports provided by the investment manager, investment trustee, claims administrator and actuary appear to provide adequate financial and other information to assess the Plan's performance. An exception is the need for more detailed information on rehabilitation, as further described in paragraph 7.43 below.

7.35 The Trustees are required to prepare an annual report pursuant to Section 4.7(c) of the Trust Agreement. We noted that this has been prepared for the Plan sponsors on a regular basis. An annual report was prepared for the year ended December 31, 2000 and made available to various Plan participants through departments' human resource functions. This distribution was part of an overall communication strategy being implemented for the Plan. The annual report provided information to stakeholders - employees and employers - on the financial condition of the Plan and the planning and operational strategies being pursued to ensure its viability. An annual report has recently been prepared for the year ended December 31, 2001.

Recommendation 7.4

We recommend that future annual reports be prepared on a timely basis and clearly indicate the impact the recent changes have had in addressing the unfunded liability of the Plan.

Claims Administration, Appeals and Rehabilitation

7.36 *Claims incidence* - Exhibit 7.5 provides background information on the 757 active claims as at September 30, 2002. We note that the incidence of the two most significant types of claims increased marginally from 49.0% of total claims in 1990 to the present level of 51.8%. In addition, Exhibit 7.6 provides an analysis of claims activity during the nine months ended September 30, 2002.

7.37 *Service standards* - Claims administration service standards were approved by the Board of Trustees in April 2001. The standards address the following areas of service delivery: client contact/assistance; claims and case management; vocational rehabilitation; contact with employers and service providers; and appeal process.

7.38 Several of the standards include a specific time frame for completion of related tasks. These time frames provide a framework against which to measure performance and have been incorporated into a document accompanying the service standards titled *Performance Evaluation of Service Standards.* It is the Board's intention to ensure the service standards and related performance evaluation are integrated into any contract negotiations with the current (or subsequent) claims administrator. We commend the Board in its efforts to increase accountability in the claims administration function. This evaluation process will also serve to establish whether value-for-money is being obtained for these services.

7.39 *Audit of beneficiary files* - We did not examine individual benefit recipients' files during the course of this audit. However, we did enquire as to whether the Board undertook regular reviews of beneficiary files. This had only been done in 1996.

7.40 The new service contract includes a provision for the inspection of documents related to the provision of claims administration services.

Recommendation 7.5

We recommend that the Board develop a schedule for the periodic review of files (likely on a sample basis) as part of the overall evaluation of the claims administration function .

7.41 *Rehabilitation guidelines* - Rehabilitation guidelines were approved by the Board in 1998. We note that these guidelines provide a framework for rehabilitation efforts, and are referred to in the service standards. The standards note that participation in prescribed rehabilitation initiatives is mandatory. We are not sure of the extent to which these guidelines have been implemented as we did not review individual claim files.

7.42 Information provided by the claims administrator indicates 110 claimants were referred for rehabilitation during the nine months ended September 30, 2002. This compares to 123 referrals to September 30, 2001. The claims administrator could not provide information to indicate the percentage of active claims (excluding those defined as permanent claims) involved in rehabilitation activities at September 30, 2002. This information is important in order to ascertain whether the service standards relating to rehabilitation are being met. We understand staff of the LTD Office is working with the claims administrator to obtain this information.

Other Issues

7.43 *Procurement* - The N.S. LTD Plan uses external service providers for the following functions:

- actuarial;
- legal;
- investment management;
- investment trustee; and
- claims administration.

7.44 We reviewed the arrangements with each of the service providers to the Plan. As noted in our assessment of the audit criteria related to procurement in Exhibit 7.1, none of the current arrangements with the service providers we examined during the course of this audit were procured through tender. These services totaled about $.965 million for the year ended December 31, 2001.

Recommendation 7.6

We recommend that the Trustees perform an analysis to determine whether services procured from external service providers result in due regard for economy and efficiency. If it is determined that these arrangements continue to be sole-sourced, written documentation justifying this decision should be noted in the Board minutes.

7.45 *Recoveries* - The Plan is entitled to recoveries from several sources:

- Canada Pension Plan (CPP);
- Employment Insurance (EI);
- Workers' Compensation Board;
- subrogation; and
- offset of benefits by income earned during rehabilitation.

7.46 We discussed the systems and controls in place to ensure the Plan is receiving the recoveries to which it is entitled. An analysis had been undertaken by LTD Office staff during the review of permanent claims as noted in paragraph 7.26 above. Recommendations resulting from this review include obtaining signed disclaimers from benefit recipients asserting that they are not in receipt of any other income which should be offset against LTD benefits. In addition, there should be a process in place to ensure re-application for CPP benefits if there is a change in the condition of the LTD recipient.

CONCLUDING REMARKS

7.47 The N.S. LTD Plan Trust Fund has, and will continue to face, significant challenges including reducing its unfunded liability. For too long, the declining financial position of the Plan was not addressed, and one can only conclude that the overall governance and accountability functions in the past failed to protect the interest of the beneficiaries on a timely basis.

7.48 The existing governance arrangements for the Plan include, by design, conflicting interests. The members of the Board of Trustees share the fiduciary responsibilities for the Plan with the sponsors. However, only the Plan sponsors have the authority for decisions most relevant to the finances and funding of the Plan. Historically, it has taken the Trustees and sponsors too long to make decisions and take action on matters with significant financial or funding consequences. As a result, current contributors to the Plan, including the public purse, are now - and will be for some time - paying increased premiums to offset the poor performance of the Fund in the past.

7.49 Recent changes to the Plan, which are aimed toward a fully-funded position in 15 years, are a significant step in maintaining a viable Fund. However, leave management policies and procedures within the government and its related entities require review in an effort to control the rate of claims incidence for the Plan.

7.50 In order to attract and retain qualified employees at all levels, an organization like the government of Nova Scotia needs to offer a reasonably comprehensive suite of benefits in addition to basic salaries and wages. Access to a reasonably priced and reliable disability benefit is one element of a comprehensive benefits program. The government's existing program offered through the N.S. LTD Plan Trust Fund has been and is still at significant risk and must be monitored closely. The Board of Trustees noted in its response to this Chapter that they have taken, or are planning to take, action toward implementing the recommendations we have made.

Exhibit 7.1

NOVA SCOTIA LONG TERM DISABILITY PLAN TRUST FUND AUDIT CRITERIA ASSESSMENT

Criteria	Assessment	Key Controls and Other Considerations	Key Suggestions
SECTION A - GOVERNANCE, ACCOUNTABILITY AND PERFORMANCE MANAGEMENT Objectives - To assess the framework for governance, accountability, and performance management of the N.S. LTD Plan Trust Fund. To assess the N.S. LTD Plan Trust Fund's accountability relationships, including those between: - the Board of Trustees and Plan sponsors; - the Board of Trustees and Plan participants; and - the Plan management and the Board of Trustees. To determine how the performance of service providers to the Plan is monitored.			
There should be regular reporting of the Plan's financial position and operating results between and among the Board of Trustees, the Plan's sponsors and participants, and service providers to the Plan.	Partially Met	There is regular reporting to the Board of Trustees, and reports to the Plan sponsors are made periodically. Service providers are provided with relevant information as needed.	An annual report, including the financial position of the Plan, should be made available to Plan participants.
There should be a system in place to ensure reporting requirements specified in contracts or agreements are met.	Met	Reports from service providers are included on the agenda of each Board meeting.	
Information provided should be sufficient to allow for informed decision making with respect to the Plan's future, and should also provide adequate detail to monitor the Plan's performance.	Met	Information on the Plan's financial situation is available on a monthly basis and allows for regular monitoring of its performance.	
There should be Terms of Reference for Trustees and Chair of the Board which detail roles and responsibilities.	Met	No specific Terms of Reference, but roles and responsibilities are documented in the Trust Agreement.	
Objectives for the Plan should be established and communicated, and plans should be developed and targets identified to meet these objectives.	Met	The Plan was established as an income replacement benefits program for eligible participants with disabilities. Objectives for the continued operation of the Plan have been established through targets related to its financial and claims performance.	
Performance against established targets should be measured and reported.	Not met		A system for monitoring financial and claims performance needs to be established.

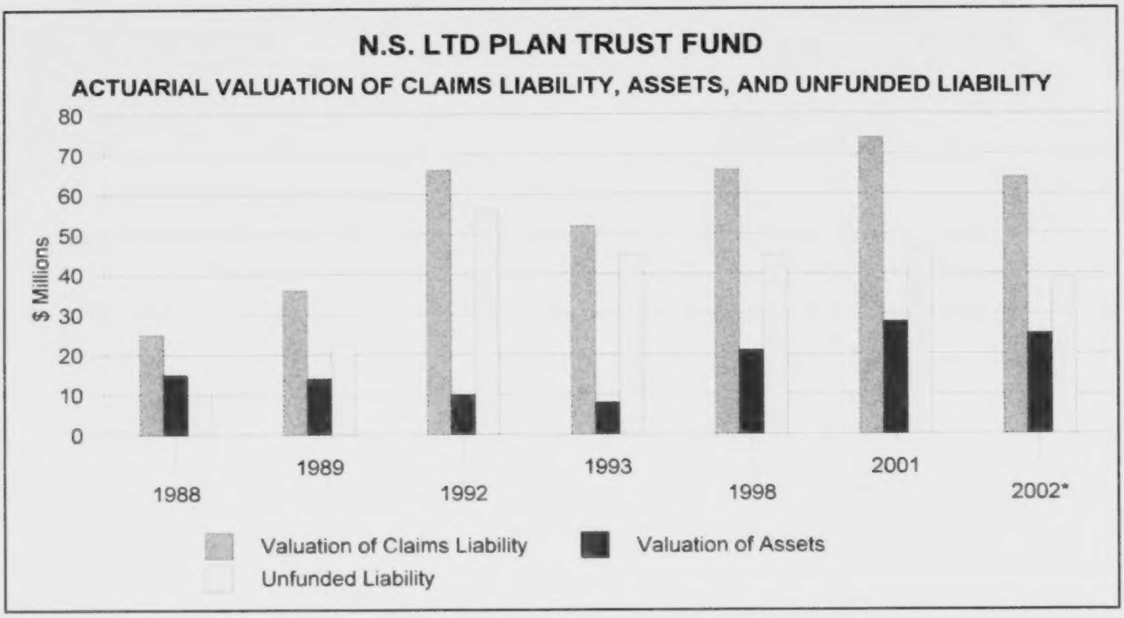
Exhibit 7.1 (Cont'd)

Criteria	Assessment	Key Controls and Other Considerations	Key Suggestions
SECTION B - FUNDING STRATEGY Objectives - To gather information on the performance of the Plan since its inception, including information with respect to additional participants entering the Plan. To review the Board's plans for addressing the unfunded liability.			
There should be documentation to support decisions made with respect to the direction of the Plan, including the admission of new participants to the Plan, premium and benefit rates, and investment policies.	Met	Recent Plan changes have been supported with extensive analysis by the Plan's actuary.	
Appropriate actuarial valuations should be performed when new groups are to be admitted to the Plan.	Partially Met	Several groups joined the Plan without actuarial valuations in the mid-1990s.	The Board of Trustees determined that valuations are now required for new entrants.
There should be an approved funding strategy to address the deficiencies of the Plan.	Met	The funding strategy was approved by the Board of Trustees in December 2000.	
The implementation of the funding strategy should be monitored and its progress compared with an approved schedule.	Not met		Not all aspects of the funding strategy were implemented. The Board of Trustees is developing a plan to monitor and evaluate the effectiveness of the approved changes. Other aspects of the strategy need to be re-evaluated.
SECTION C - CLAIMS ADMINISTRATION AND APPEALS Objectives - To assess the control processes for monitoring the claims administration and appeal functions. To determine how the economy and efficiency of the claims administration and appeal services are assessed.			
There should be approved standards for the provision of claims administration and appeal services.	Partially Met	The Board of Trustees has approved service standards for claims administration and appeals, although these have not been implemented. Standards presently used by the service provider for claims administration and appeal services have been developed over time.	Standards for these services should be implemented. The Board of Trustees has included these in the contract for claims administration services which is currently under negotiation.
There should be a process for monitoring and reporting performance against service standards.	Not met	A system for monitoring and evaluating these services is not in place.	The proposed contract now includes benchmarks for evaluating claims administration services. Once contract negotiations are completed, a system for monitoring and evaluating should be established.
The contract for claims administration and appeal services should be awarded in accordance with procurement policies and procedures.	Not met	The current contract for claims administration services was not awarded as a result of a tendering process.	There should be documentation to support the decision not to tender, and to indicate that these services provide due regard for economy and efficiency.

Exhibit 7.1 (Cont'd)

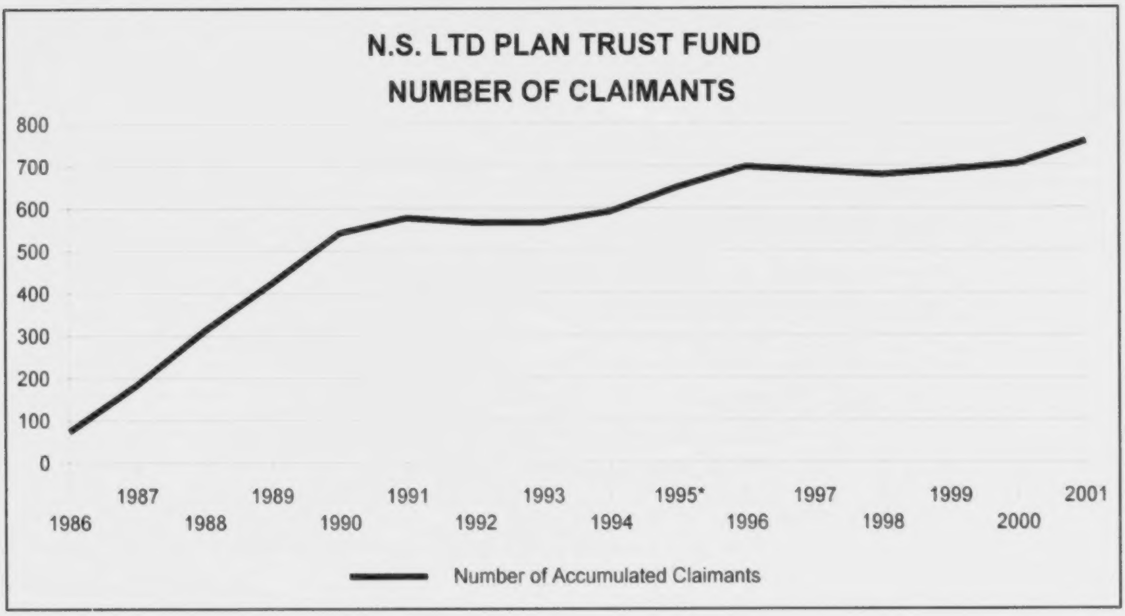
Criteria	Assessment	Key Controls and Other Considerations	Key Suggestions
SECTION D - REHABILITATION SERVICES Objectives - To assess the control process for monitoring rehabilitation services. To determine how the economy and efficiency of rehabilitation services are assessed.			
Standards for rehabilitation services should be established and approved and include time frames for intervention.	Partially met	Rehabilitation guidelines were approved by the Board in 1998. There is no formal agreement with the service provider specifying the use of these in rehabilitation services, and consequently, not all aspects of these guidelines have been implemented.	Approved guidelines should be implemented fully. The Board of Trustees has included these guidelines as part of the proposed contract for claims administration services. (These services are currently under negotiation.)
There should be a system for monitoring and reporting performance against approved standards for rehabilitation services.	Not met	The approved guidelines include some benchmarks for performance evaluation, but as the guidelines have not been implemented fully, there is no system for monitoring and reporting performance in the area of rehabilitation.	The Board of Trustees has approved service standards. These standards include benchmarks against which rehabilitation services are to be evaluated on a regular basis. The standards form part of the contract for claims administration services.
The contract for rehabilitation services should be awarded in accordance with procurement policies and procedures.	Not met	Claims administration services are not tendered.	There should be documentation to support the decision not to tender, and to indicate that these services provide due regard for economy and efficiency.
SECTION E - INVESTMENT MANAGEMENT Objectives - To assess the control processes over the performance of investment management functions. To determine if investment management services are provided with due regard for economy and efficiency.			
There should be an investment strategy for the Plan which is based on analysis and consideration of an appropriate level of risk.	Met	There is an investment policy for the LTD Plan Trust Fund. The rate of return established for the Plan is comparable to the rate used for other Provincial benefits plans.	An analysis of the rate of return should be performed to ensure the unfunded liability of the Plan has been considered fully.
Investment results should be compared with selected benchmarks on a periodic basis.	Met	The investment manager provides information to compare the Plan results with those of selected indices on a regular basis.	
The contract for investment services should be awarded in accordance with procurement policies and procedures.	Not met	The services provided by the investment manager are not tendered.	There should be documentation to support the decision not to tender, and to indicate that these services provide due regard for economy and efficiency.
SECTION F - RECOVERIES Objective - To assess the system for ensuring the LTD Plan is recovering all amounts to which it is entitled.			
There should be a system to ensure amounts to be received from third parties are complete and recovered on a timely basis.	Met	CPP and other possible recoveries are identified during the application process.	Beneficiaries should be asked to update information related to recoveries on a periodic basis. The need for this has been identified by the LTD Office.

Exhibit 7.2



** as of June 1, 2002*

Exhibit 7.3



**estimated*

Exhibit 7.4

N.S. LTD PLAN TRUST FUND
SUMMARY OF APPROVED PLAN CHANGES

The following changes were effective May 1, 2002:

- The definition of disability, which affects the own occupation time-frame, was changed from 30 months to 24 months.
- Eligibility criteria for continued coverage after 24 months was reduced from 80% to 75% of pre-disability earnings.
- Premiums increased with employers and employees continuing to cost share on a 50/50 basis.
- The cap on benefits was raised. Therefore, full premiums must be paid for employees earning up to $120,000 per year.
- New LTD claimants will receive benefits equal to 65% of their salary, to a maximum benefit of $3,000 bi-weekly.
- Premium contributions and coverage will end 100 days prior to an employee reaching age 60, or after accumulating 35 years of pensionable service, whichever comes first.
- Annual indexing of benefits will be determined based on the financial viability of the Plan.

Exhibit 7.5

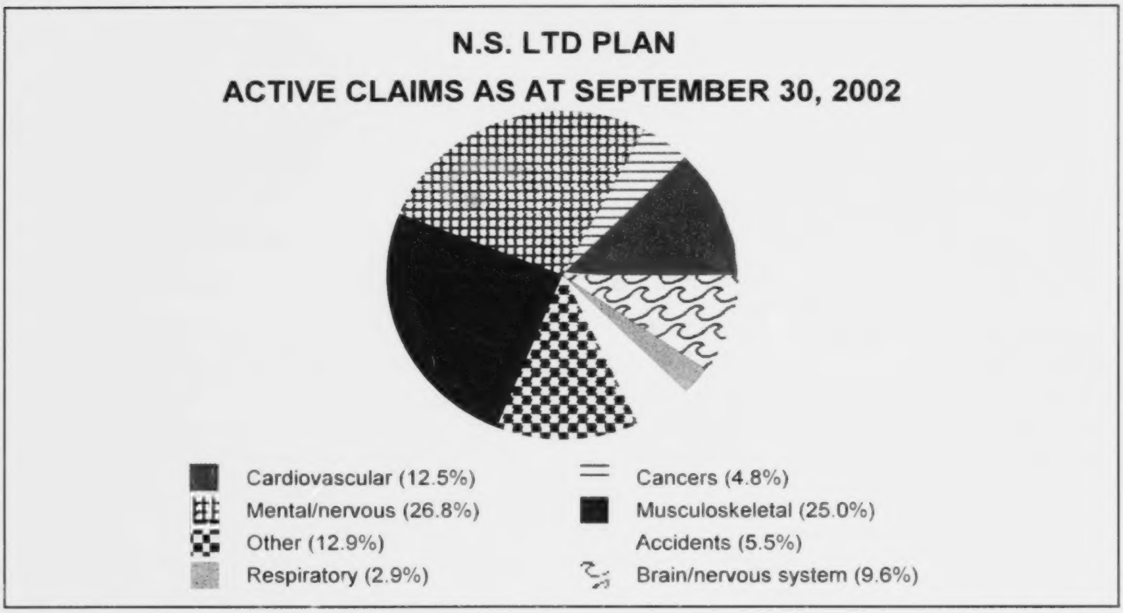
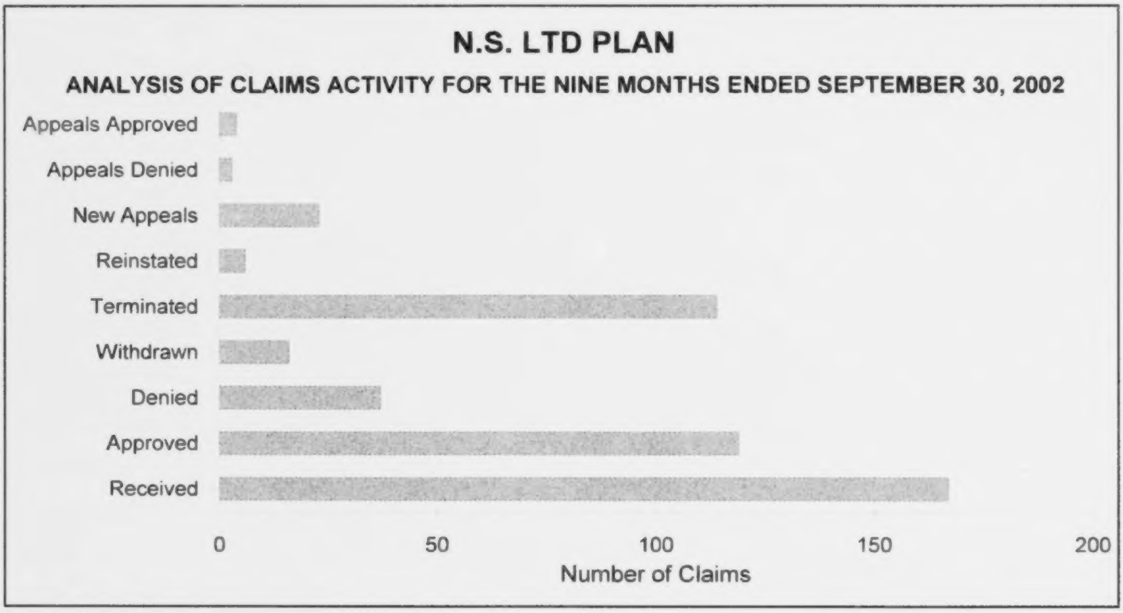


Exhibit 7.6



8.

HEALTH - ACCOUNTABILITY OF DISTRICT HEALTH AUTHORITIES

BACKGROUND

8.1 In recent years, the health care system in Nova Scotia has undergone considerable changes. The prior structure of four Regional Health Boards and four Non-Designated Organizations was replaced by nine District Health Authorities (DHAs) and two Provincial Health Care Centres (PHCCs). The basis for the move to DHAs was the 1999 *Report of the Task Force on Regionalized Health Care*. The Health Authorities Act received Royal Assent on June 8, 2000. The Act provides for the creation of District Health Authorities, Provincial Health Care Centres and Community Health Boards (CHBs). Certain sections took effect January 1, 2001 and other sections became effective April 1, 2001.

8.2 The DHAs were established effective January 1, 2001 under the District Health Authorities General Regulations. One of the two PHCCs, the Queen Elizabeth II Health Sciences Centre, is governed by the Board of the Capital District Health Authority. The IWK Health Centre (IWK), the second PHCC, is the only organization that does not come under the authority of a DHA. However, the accountability relationship established by the Health Authorities Act applies to the IWK as well. For purposes of this audit, when we refer to DHAs, the term includes the IWK Health Centre.

8.3 The Act and Regulations include provisions that establish the accountability relationship between the DHAs and the Department of Health (DOH). The legislation includes required documents and deadlines for receipt of information by DOH or DHAs.

8.4 DOH's budget for grants to DHAs for 2002-03 was $987 million (see Exhibit 8.1 for a three-year summary of DOH budgeted grants to DHAs). This is divided into four major categories: acute care; addiction services; public health; and mental health services. The breakdown by DHA is shown in Exhibit 8.2. For the majority of DHAs, actual expenditures exceeded budget in each of the last two years. DOH provided deficit funding (2002 - $15.7 million, 2001 - $41.8 million) to cover these amounts. For the 2002-03 fiscal year, DOH increased DHA base funding over the prior year's amount by $22.5 million plus $65 million for salary increases.

RESULTS IN BRIEF

8.5 The following are the principal observations from this audit.

- The Health Authorities Act includes provisions that establish a strong accountability structure between DOH and the DHAs. Although some of these requirements are already in place, additional work is needed to enforce all provisions of the Act and ensure the DHAs comply with legislation and are accountable to DOH.

- The Health Authorities Act requires Executive Council approval of DHA Business Plans. The Department of Health submits detailed information on DHAs' planned initiatives to Treasury and Policy Board for discussion as part of the budget approval process. DHA funding is approved and documented. We believe that accountability would be improved if DHA Business Plans were submitted to Executive Council as provided in the Act, and Executive Council formally approved, with documentation, DHAs' planned initiatives in addition to the funding approval. This would help to clarify the government's performance expectations for the DHAs.

- The Health Authorities Act requires DHAs to prepare annual reports including financial statements and reports on performance in achieving objectives. DOH recognizes the need for a performance reporting framework for DHAs. The Department has begun to address this issue through the development of potential performance indicators.
- There is a need for further guidance by DOH with respect to DHA accounting policies. The current policies are not consistent among DHAs. Comparability would be enhanced if the Department established accounting policy requirements for DHAs.
- The new Database Management Information System has been a significant improvement in the Department's ability to obtain and use relevant information from the DHAs. Future plans include developing comparative reports.
- The Nova Scotia Health Information System (NShIS) will provide timely health service information through a centralized computer system database. This project is a very significant undertaking by the Province and is scheduled for completion by the end of 2004. The most recent forecast of project costs for NShIS is $57 million. The steering committee has directed the project manager to reconsider the cost forecast.
- There have been preliminary discussions on the development of a formula for funding DHAs. DOH management believes that more time and effort is required to develop the methodology and a formula could not be established in the current year without more resources. We believe this initiative is worth pursuing as it would rationalize funding for DHAs.

AUDIT SCOPE

8.6 The objectives for this assignment were to:

- review and assess the accountability structure and performance reporting for the DHAs; and determine whether there is compliance with related provisions of legislation and policies;
- review the new Database Management Information System to determine whether DOH is obtaining relevant, timely information from DHAs to use in resource allocation and other decisions;
- review the accounting policies followed by DHAs and related guidance given by DOH and National MIS Guidelines and determine whether there is a need for further guidance to achieve compliance with generally accepted accounting principles and consistency among DHAs; and
- determine status (and planned completion) of the following planned changes identified in DOH business planning documents: new information systems; funding formula; and development of policy framework for revenue generation by DHAs in connection with their provision of non-insured services.

8.7 Our approach was based on interviews, review of legislation and other documents or correspondence. The audit criteria were taken from recognized sources such as CICA Criteria of Control Board's *Guidance on Control*, CCAF-FCVI Inc's *Six Principles of Effective Governance*, Health Authorities Act, CICA's *Information Technology Control Guidelines* and Canadian Institute of Health Information's *Guidelines for Management Information Systems in Canadian Health Services Organizations.*

PRINCIPAL FINDINGS

Accountability, Performance Reporting and Compliance with Legislation

8.8 The Health Authorities Act is a key document that establishes the accountability relationship between DOH and the DHAs. DHAs are required to *"govern, plan, manage, monitor, evaluate and deliver health services in a health district in accordance with this Act... having regard to policies, directives and standards established pursuant to this Act."* (Sections 19(a) and (b)) Districts must submit business plans, audited financial statements, management letters, annual reports and any other information required by the Minister to the Department.

8.9 *Roles, responsibilities and objectives* - When DHAs were first established, DOH held education sessions with DHA Boards, management and CHBs and produced a document called *User's Guide to Health Authorities Act* to assist DHAs in becoming familiar with the Act and its requirements. The development of Health Services Business Plans is a key accountability requirement for DHAs. Each year since DHAs were established DOH has produced a document - *Health Services Business Plan Requirements* - which details the roles and responsibilities of the parties involved for that year's business planning process. This document sets deadlines for the receipt of DHAs' Health Services Business Plans by DOH, subsequent responses to the plans from DOH, and the receipt of the final plan by the Department. The deadline established in *Health Services Business Plan Requirements* for receipt of the 2002-03 business plans by DOH was originally December 31, 2001, but it was extended to January 11, 2002. DOH granted an extension to allow DHA Board approval of the plans prior to submission to the Department. This revised deadline was met by all DHAs.

8.10 *Health Services Business Plan Requirements* also includes templates for the narrative and budget portions of the plans. For 2002-03, the templates provided by DOH were used sporadically throughout the various DHA business plans. Where the templates were not used, the required information was forwarded to DOH in a different format. Since the DHAs had not been in operation a full year at the time these plans were prepared, the Department did not strictly enforce its requirement for completion of templates. In reviewing *Health Services Business Plan Requirements* for 2003-04 we noted that the Department has made the use of templates mandatory. DHAs have been advised that, if their submission does not comply with template requirements or if supporting information is not adequate, the submission will be returned to the DHA for correction.

8.11 Once draft Health Services Business Plans have been received by DOH, the plans are reviewed by the Senior Leadership Team and an evaluation tool is completed. This evaluation tool is based on criteria such as whether the plan meets operating budget targets established by DOH; the initiatives identified to achieve these targets are acceptable to the Department; there is evidence of consideration of CHB plans; the plan includes an outcome measures section; and other criteria. The evaluation tool is used to assist in the review process and as a reference during the senior group's discussions of the business plans. Program directors at the Department also review the Districts' plans to determine any potential impact on their areas.

8.12 DOH Finance staff prepare a summary sheet for each District that includes budget information and cost pressures identified in the business plan. A comparative summary of all DHAs is also prepared allowing the Department to see the Districts' initiatives at a glance. These summaries are updated as budget targets change.

8.13 DOH followed an established process for the review of DHA health services business plans but in some cases it was difficult to determine if all relevant information had been received from the DHAs. Submissions for various aspects of the business plan were retained by the staff responsible for that section. For example, different staff had files relating to budget information, new or expanded programs, capital plans and so on. One central file for all aspects of the business planning process for each DHA would ensure all documents have been received from each District and make it easier to locate documentation when required.

Recommendation 8.1

We recommend that DOH establish a central file for each DHA. This file should contain all correspondence between the Department and the DHA as well as any documents required by legislation.

8.14 *Monthly forecast and variance analysis* - An important aspect of accountability is the preparation of monthly forecasts and related variance explanations by DHAs. The Department requested that DHAs provide this information 40 days after month end starting with July 31 data. DOH has not specified dollar or percentage variances but has informed DHAs that all "*major variances*" should be accompanied by an explanation. A status report on initiatives implemented is also required. This helps ensure the Department's and DHAs' objectives are met within the budget targets and initiatives set out in the DHA business plans. Financial advisors at DOH use a checklist to ensure all DHAs submit the required information on a monthly basis. DOH also reviews the forecast report and related variance explanations for completeness. If the Department is not satisfied with a variance explanation, staff follow up with the DHAs to obtain additional information.

8.15 The monthly forecast reports are at a very high level with line items such as acute care portable, addiction services, public health and mental health services. DOH staff noted that the DHAs are free to spend their portable budgets as they wish. 89% of DHA budgeted funding for 2003 is in acute care portable with the remaining 11% in non-portable (i.e., non-transferable) line items. If necessary, the Department can obtain additional information from the MIS data (see paragraph 8.28) provided by the Districts on a quarterly basis.

8.16 There have been instances where some DHAs have had difficulties providing adequate variance explanations to the Department. We suggest that DOH and DHAs continue to work together to improve the monthly variance analysis process.

8.17 *Performance reporting* - Section 21 of the Health Authorities Act states that a District's annual report should include *"a report on the results achieved by the authority with respect to performance objectives established for the authority, including those established in an approved health services business plan for the year."* Five of the ten DHAs included indicators in their 2001-02 annual reports. These indicators differed from DHA to DHA and most did not include established targets for comparison with the resulting indicator.

8.18 The Canadian Institute for Health Information (CIHI) has 15 financial indicators which are being tracked nationally and will eventually be reported. DOH participates in this process. These indicators are calculated by the Department from the MIS data received from the Districts on a quarterly basis (see paragraphs 8.28 to 8.36 below for further information on MIS data). Currently these indicators are for informational purposes only and benchmarks have not been established. DOH informed us it intends to compare Districts, within the Province and nationally, using these indicators in the future.

8.19 There is no consistent performance reporting by the DHAs to DOH beyond the statistical information to compile the 15 financial CIHI indicators. Some DHAs discuss indicators in business plans or provide outcome measures in annual reports while others do not. Although *Health Services Business Plan Requirements* and the Health Authorities Act refer to the need for DHAs to report performance information, DOH has not followed up in cases where DHAs have been non-compliant because DOH management believes there is a need to work on a framework for all Districts.

8.20 A draft document has been prepared in an effort to identify key DHA performance indicators useful in the DOH business planning process. This document identifies 36 possible indicators and discusses potential sources of data. DOH already has the information for some of these indicators. This document is still in a draft stage and is intended to form part of the discussion for the 2003-04 business planning process.

Recommendation 8.2

We recommend that DOH continue to develop a framework for performance reporting by DHAs. This should include measuring common performance indicators against pre-established benchmarks.

8.21 *Compliance with legislation* - The Health Authorities Act is a key piece of legislation that establishes a number of requirements DHAs or the Department must comply with. Correspondence from the Department to the Districts throughout the year often refers to relevant sections of the legislation. Some of the requirements under the Act have been discussed in paragraphs 8.9 to 8.19 above.

8.22 The Act requires the Minister to respond to DHA business plan submissions within 30 days of receiving the plans. For the 2002-03 planning process, the reply to the original submission was verbal rather than a formal written response. Throughout the process, budget targets changed and the Districts submitted revised plans based on the new targets. Each time targets changed and plans were revised, the Senior Leadership Team met to discuss the revisions. After the final Health Services Business Plans were submitted by the Districts, DOH complied with the legislated requirement by responding to these final plans within 30 days.

8.23 Both the Health Authorities Act and *Health Services Business Plan Requirements* call for DHAs to incorporate CHB plans in business plans and provide explanations for any suggestions not included in the District plan. With two exceptions, DHAs either noted consideration of CHB plans in developing the District plan or indicated that CHBs in the area did not have plans ready for consideration at that time. Although the business plans may not address CHBs specifically, DHAs informed the Department that there was collaboration with the community in developing DHA business plans.

8.24 Section 56(2) of the Health Authorities Act states "*The health-services business plan prepared by each district health authority is subject to the approval of the Governor in Council and shall not be implemented until the Governor in Council has approved it.*" DOH informed us that individual District business plans are not approved by the Executive Council. Currently, the Department of Health submits detailed information on DHAs' planned initiatives to Treasury and Policy Board for discussion as part of the budget approval process. DHA funding is approved and documented. The Department of Health believes that this process satisfies the requirements of Section 56(2) of the Act. However, we believe that accountability would be improved if DHA business plans were submitted to Executive Council as provided in the Act, and Executive Council formally approved, with documentation, DHA planned initiatives in addition to the funding approval. This would help to clarify the government's performance expectations for the DHAs.

Recommendation 8.3

We recommend that the Department submit DHA business plans to Executive Council for approval as required by the Health Authorities Act.

8.25 Section 21(2) of the Act requires DHAs to submit annual reports to DOH that include audited financial statements and a report on any performance objectives that have been established. The Department does not have a process for ensuring receipt and review of the DHAs' annual reports. As a result, it was sometimes difficult to determine when a DHA had submitted its report. By mid-October, DOH had received six of the ten DHA annual reports. Over the remainder of our audit, DOH staff followed up with the remaining four DHAs and received three more annual reports. DOH staff informed us that one of the annual reports has been delayed due to the opening of a new facility in that District. A draft of the report is in progress. Although the deadline established by the Act was not met, nine of the DHAs have fulfilled their accountability requirements by submitting annual reports. At the time our audit commenced (October 7, 2002), DOH had not followed up with DHAs regarding the legislated requirement for annual reports by September 1.

Recommendation 8.4

We recommend that DHAs submit annual reports to DOH by September 1 as required by the Act. We also recommend that DOH follow up on a timely basis in those cases where the annual report and other required items are not received by due dates.

Accounting Policies

8.26 In order to allocate resources to DHAs equitably, the Department of Health requires comparable financial information from DHAs. This financial information should be prepared in accordance with generally accepted accounting principles (GAAP) and comply with the CIHI *Guidelines for Management Information Systems in Canadian Health Services Organizations*. The MIS Guidelines include a chart of accounts and guidance on choice of accounting principles. The Guidelines state that they have been prepared in accordance with GAAP. In some areas where the CICA Handbook allows a choice of accounting treatments, the MIS Guidelines may make specific recommendations.

8.27 *Need for accounting policy manual* - DOH does not have an accounting policy manual for the DHAs. We reviewed selected accounting policies of the DHAs and noted inconsistencies in the following areas which could be reduced through consistent application of accounting policies.

- *Comparability* - DOH staff informed us that the DHAs are aware of the need to be compliant with GAAP and the MIS Guidelines. Compliance with GAAP is assured through unqualified audit opinions on the DHAs' audited financial statements. The Department does not know if the Districts are compliant with accounting policy recommendations in the MIS Guidelines. There are situations where GAAP allows choices among accounting alternatives and the MIS Guidelines may make specific recommendations. DHAs may not choose the same policies. An accounting policy manual would enhance comparability.

- *Capitalization threshold* - DOH requires DHAs to have a capital assets policy but has not specified capitalization thresholds for the Districts. The MIS Guidelines recommend a capitalization threshold of $1000. Currently, thresholds vary among Districts.

- *Comparable accounting treatment of specific items* - Nine of the ten DHAs received deficit funding from DOH for the 2001-02 fiscal year. Through discussions with the DHAs, DOH requested that deficit funding be disclosed in a manner that would show the deficit prior to the receipt of such funding. Only two of the nine DHAs receiving deficit funding complied with the Department's request. This leads to a lack of comparability of the audited financial results for the Districts.

- *Summarization of expenses by function* - Typical expense presentation on financial statements includes object categories such as salaries, operating expenses and others. DOH would like to see all Districts move to the MIS structure of presenting expenses by function such as nursing, diagnostic and therapeutic. Department staff informed us of plans to establish a format for DHA financial statements that will address this issue and enhance comparability.

Recommendation 8.5

We recommend that the Department of Health establish accounting policies and give more direction to the District Health Authorities in this area.

District Health Authority Database Management Information System

8.28 As a result of the accountability framework established in Section 21 of the Health Authorities Act, the Financial Services Division of the Department of Health embarked upon a review of the financial and statistical information requirements necessary to support the allocation of health care resources, monitor service delivery and promote fiscal responsibility. This review culminated in a revised financial and statistical information model termed the Nova Scotia MIS Database. The standards adopted for this database are from the *Guidelines for Management Information Systems in Canadian Health Services Organizations* issued by the Canadian Institute for Health Information. DHAs were consulted throughout the development of this database. We reviewed the new system to determine whether DOH is obtaining relevant, timely information from DHAs to use in resource allocation and other decisions.

8.29 *Description of system* - A third-party vendor was identified to supply a mapping function utility for all health services within the DHAs in Nova Scotia. This provides for computer conversion of the DHA customized MIS chart of accounts, both financial and statistical, to a standard Provincial chart of MIS Accounts without requiring the DHAs to change account structures.

8.30 The financial and statistical month-end actual and budget balances, as recorded in each DHA's general ledger, are transmitted electronically over the world wide web on a scheduled quarterly basis via the third-party software supplier's website to the Department of Health. At year end, the DHAs are required to complete a final fifth submission to DOH balancing to the audited financial results for the year.

8.31 The system performs edit checks at the supplier's location before submitting the data to DOH. The DHAs are responsible to submitt error-free data. Any errors must be resolved prior to acceptance of the submission by DOH. Security considerations such as controlled user access at the DHA and Department level, controlled vendor access, computerized medical records security and information transfer security were addressed in the planning stages by the Department. Once the data is received by the Department, these quarterly files are subject to the security, backup, and disaster recovery policies of the Department.

8.32 The quarterly files are maintained as read-only files and a separate software analytical tool is used to analyze and manipulate the information. The software has been used to produce various ad hoc reports, comparative analyses and information to challenge or support program and funding requests. Independent review of these reports is completed within the Department.

8.33 *Use of information* - Conversion of the DHAs' financial and Statistical chart of accounts began in 2001. On April 1, 2002 there were significant changes to the CIHI MIS Guidelines account structure. This caused a delay in the first quarter data submission for 2002-03 until November 1, 2002. The second quarter submission followed two weeks later. Future data submissions are planned to meet the expected time lines.

8.34 *Statistical data* - Statistical data from the DHAs forms part of the quarterly submissions to DOH. The DHA general ledgers include statistical information collected from other applications such as payroll, materials management and admissions and discharges. This statistical collection system is less formalized than that for gathering financial data. While there are some reasonableness tests and edit checks, the statistical information is not audited to ensure the accuracy of data.

Recommendation 8.6

We recommend that DOH review the systems and controls over the collection of statistical data and consider whether additional guidance and controls are necessary to ensure the data is accurate and comparable.

8.35 *Future plans* - Future plans include development of standardized comparative reports on health facility operations to be shared with the DHAs. These reports will include performance indicators related to services provided, productivity and efficiency, to be used by the DHAs in annual business planning activities. The Department also has plans to expand the edit checks to ensure additional information required by CIHI is included in the database submissions.

8.36 The MIS Database has been a significant improvement in the Department's ability to obtain and use relevant information from the DHAs. We encourage the Department to proceed with its future plans to expand the use of the database.

Status of DOH Projects and Planning

8.37 The DOH Business Plan for 2002-03 included the following selected priorities.

- *"Develop a policy framework and consistent provincial approach to revenue generation by DHAs in connection with their provision of non-insured services."* (p. 108)
- *"Develop a funding methodology for DHAs that ensures equity and consistency."* (p. 29)
- *"Continue implementation of the Hospital Information System (hIS) project to satisfy the need for timely and relevant clinical and management information for evidence-based decision making."* (p. 29)

8.38 We followed up to determine status and planned completion of these initiatives.

8.39 *Summary* - Two of the three priorities, a revenue generation policy framework and a funding formula for the DHAs, have been deferred with no completion date. The hIS project remains scheduled for completion by the end of 2004. Project costs are expected to be higher than orginally budgeted with operating costs to remain the same.

8.40 *Revenue generation policy framework* - There is a policy framework for revenue generation for non-insured services within the DHAs. This framework requires compliance with the Canada Health Act and consistency across the Province and should be considered in the business planning process. However, DOH senior management recognize that the policy framework is at a very high level. Management does not see the development of a more detailed policy framework as a priority at this time and the project has been deferred with no planned completion date.

8.41 *Funding formula* - Currently, funding to the DHAs is not based on a formula, but rather on DHA business plans, targeted funding, efficiency information in the Clinical Services Master Plan, and historical negotiations. This funding is generally portable (i.e., transferable) between programs and capital, although there are some non-portable areas. The Department and the CEOs had preliminary discussions on the development of a formula for DHA funding. A consensus on the definition of goals and objectives for a funding methodology was not finalized. The project was reassessed in mid-summer. Management believes that more time and effort is required to develop the methodology. Since this could not be achieved in the current year without more resources the project was deferred indefinitely.

8.42 The adequacy of funding for DHAs has been a major topic of discussion in the Nova Scotia health sector. For the past several years, the DHAs have incurred significant deficits and DOH has funded the deficits at year end. We believe a funding formula to rationalize funding allocations to the DHAs would be beneficial. We acknowledge it would be a major undertaking for the Department and the DHAs but it would assist in ensuring equity within the system.

Recommendation 8.7

We recommend that management establish a project plan and proceed with development of a funding formula to rationalize funding allocations to DHAs.

8.43 *NShIS* - The Nova Scotia Health Information System (NShIS) was initiated to provide timely health service information to healthcare providers, health service administrators, researchers and others through a centralized computer system database. This system will capture patient administration and clinical information from facilities in DHAs 1 to 8 and provide linkages to other systems in use by DHA 9 and the IWK. The records will be available at any of the 34 health facilities within the Province where the patient may require medical service.

8.44 In June 1999, the Province established a $30 million fund for the implementation of the NShIS. By March 31, 2001, the Department budgeted $41.6 million capital costs and $32.2 million operating costs over a seven-year life cycle with an implementation schedule of 36 months.

8.45 The Department contracted a private sector project manager for this initiative. A steering committee is responsible for monitoring progress, issues and risks as well as the approval of scope changes, budget and schedule. The project plan includes requirements for meetings and status reporting which have been generally followed to date.

8.46 Formal status reports are provided by the project manager to communicate accomplishments, issues, plans for resolution and next steps. These reports are circulated to the project owner and the executive sponsors, who form part of the steering committee for the project. Both the project manager and the project owner meet every two months with the steering committee and present a status report dealing with scope, time line, budget, risk management and other items.

8.47 A finance working group has recently been established to provide year-to-date actual expenditure information. The project manager, who is a member of this group, provides annual financial expenditure forecast reports. The finance working group reviews the actual expenditures and uses that information in assessing the reasonability of the forecast information.

8.48 The July report to the project steering committee indicated the implementation date for the first DHA had been extended due to concerns surrounding sufficiency of testing days, large number of staff to be trained and change management activities at the site. The remaining DHAs are to be implemented concurrently in order to achieve the original completion date. These concerns have also led to an increase in the project manager's forecast project costs to $57 million. The steering committee has directed the project manager to reconsider the forecast project costs. Annual operating costs are expected to stay the same.

CONCLUDING REMARKS

8.49 The Department realizes that there is work to be done with respect to accountability, performance reporting and compliance with legislation and have begun to address these issues. DOH and the DHAs have accomplished a significant amount since the DHAs were established in 2001. Efforts are now needed to strengthen the accountability structure set out in the Health Authorities Act by enforcing all requirements of the legislation and ensuring that all information received from DHAs is comparable.

8.50 The Department is investing significant resources in the development of better information systems. We support the Department's efforts to improve information available for decision making.

8.51 Allocation of funds to the DHAs is a complex task as there are many factors to be considered such as health status of the population, services available in the region, and services obtained from other regions. We believe that the establishment of a funding formula would help rationalize the funding allocations and we encourage the Department to proceed with this initiative.

Exhibit 8.1

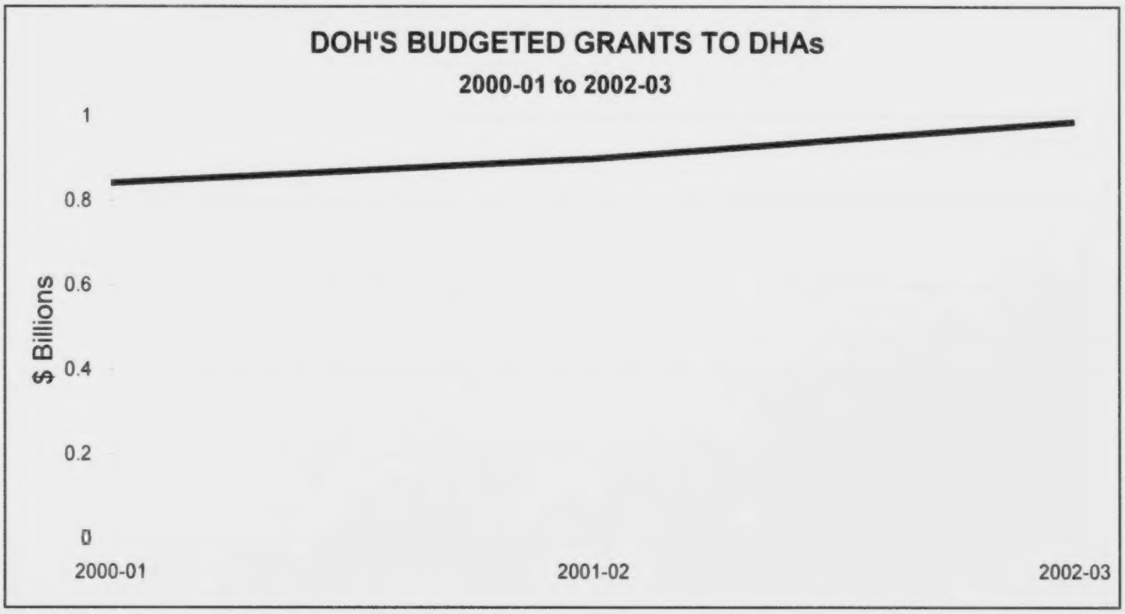
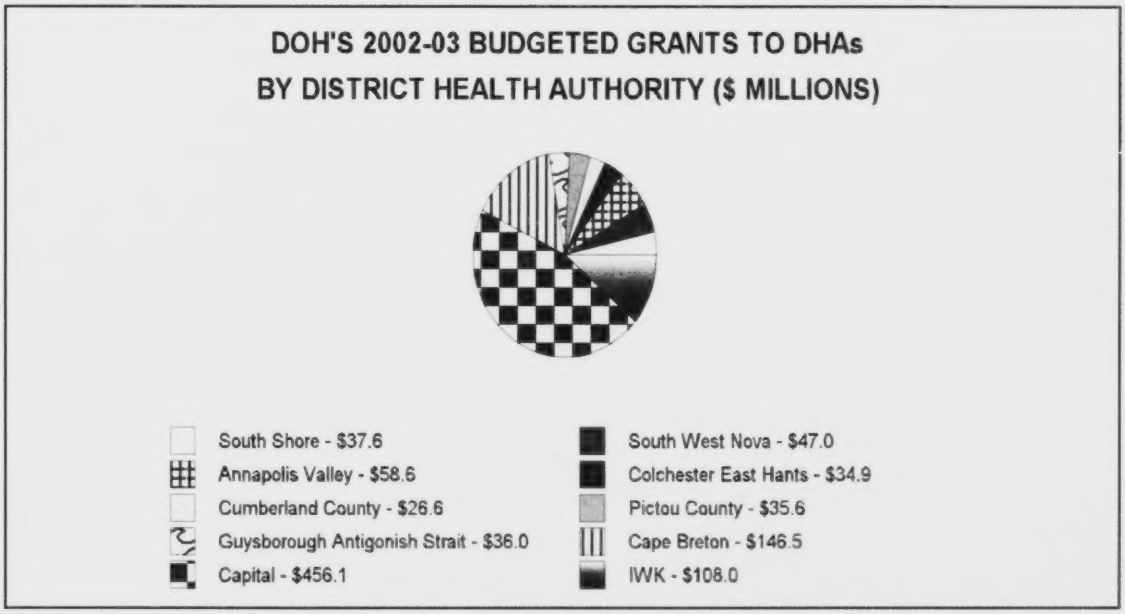


Exhibit 8.2



DEPARTMENT OF HEALTH'S RESPONSE

The Department feels this chapter is a fair representation of the accountability framework between the District Health Authorities and ourselves. We are pleased for the recognition of our progress to date, and acknowledge the work still ahead of us. I do note, however, that our original interpretation of ***Section 56 (2)*** *of the Health Authorities Act was somewhat different than the Office of the Auditor General. We are seeking various opinions on this section which will dictate our response to Recommendation 8.3.*

Thank you for the opportunity to comment on the chapter.

9.

HEALTH - PROCUREMENT

BACKGROUND

9.1 Government's procurement activities are governed by Nova Scotia's Policy on Government Procurement (Procurement Policy) and the Government Purchases Act. The policy applies to all departments, agencies, boards and commissions. The Minister of Transportation and Public Works is responsible for promoting and implementing the policy through the Procurement Branch of the Department.

9.2 The Procurement Policy was issued January 1, 1996 and revised January 26, 2001. It provides guidelines for procurement in various situations including tendering, sole sourcing and alternative procurement practices. The objective of the policy statement is to establish and maintain a high level of confidence in the procurement process by ensuring that all public sector procurement is carried out in an open, fair, consistent, efficient and competitive manner. Under certain conditions, exemptions from the policy's requirements are permitted. Situations where exemptions have been approved by a department's Deputy Minister are required to be reported by the respective department to the Department of Transportation and Public Works (DT&PW) (see Exhibit 9.2). The policy also requires a report listing alternative procurement transactions to be prepared by the Procurement Branch and provided to the Minister of Transportation and Public Works.

9.3 During the current year, we performed an audit of the Department of Transportation and Public Works Procurement Branch (see Chapter 14 of this Report). During that audit, we found cases where the Alternative Procurement Reports prepared by the Procurement Branch for the Minister of Transportation and Public Works were incomplete and inaccurate. We also found errors in recording of procurement transactions in the accounts payable cycle of the Province's Corporate Financial Management System (CFMS). The Department of Health (DOH) is the largest government department and we decided to audit that Department to allow us to gain a better understanding of procurement practices at the department level. This Chapter presents the results of our work at the Department of Health.

9.4 During 2002, the Department of Health's senior management requested the Corporate Internal Audit Division of the Department of Finance to review and document the current Procurement and Accounts Payable processes, to note opportunities for improvement and to provide recommendations to enhance the efficiency and effectiveness of these processes. We reviewed the report from that review (dated March 27, 2002) and found that it confirmed many of our findings and observations.

9.5 The term *procurement* applies to the purchase of final consumer goods or services and not such costs as service fees, salaries, grants and assistance. During the period covered by our audit (approximately 22 months - April 2000 to February 2002), DOH's procurement of goods and services amounted to approximately $56 million.

RESULTS IN BRIEF

9.6 The following are our principal observations from this audit.

- We found several instances where the Department of Health was not compliant with the requirements of the Provincial Procurement Policy or its internal policies. We recommend that the Department complete and implement its reorganization of the procurement function and take measures to achieve compliance with the related policies.

- In our detailed testing of procurement transactions, we found that 14 of 37 items in our sample were neither tendered nor appropriately exempted under the alternative procurement practices section of the Procurement Policy.

- Policies require that purchase orders be approved at the time of procurement to provide proper approval of the transaction and the vendor's price. We found that purchase orders are being initiated after the date of purchase rather than before. We recommend that the Department of Health prepare, approve and issue purchase orders at the time when the order is placed.

- The Department has not established processes to ensure all alternative procurement transactions are properly approved by the Deputy Minister, documented and recorded in the Province's Corporate Financial Management System, and reported to the Minister of Transportation and Public Works on a timely basis. We found that the report to the Minister of Transportation and Public Works was incomplete and excluded 16 of 26 items we examined which followed alternative procurement practices at the Department of Health. We recommend that the Department of Health develop an adequate process to approve, document and report alternative procurement transactions.

AUDIT SCOPE

9.7 The objectives for this audit were to determine whether:

- the Department of Health complies with the Government Procurement Policy, particularly alternative procurement practices;

- the Department of Health has a system for approving and reporting alternative procurement transactions; and

- the reports produced by the Department of Transportation and Public Works Procurement Branch, on the Department of Health's alternative procurement transactions, are complete and accurate.

9.8 The criteria used to evaluate the alternative procurement practices of the Department were taken directly from the Provincial Procurement Policy and are set out in Exhibit 9.1.

9.9 We tested a sample of procurement transactions for compliance with procurement policies. We reviewed invoices, purchase orders, Alternative Procurement Practices Report recommendation forms and reports. We also interviewed senior management and supervisory staff responsible for procurement at the Department of Health.

PRINCIPAL FINDINGS

Organization of Procurement Function

9.10 The Chief Financial Officer has responsibility for procurement within the Department of Health. The procurement section consists of the Director of Office Services, a procurement officer and two others. A recent review by the Department of Finance's Corporate Internal Audit Division (see paragraph 9.4) determined that there are problems with the work flow and efficiency during processing of transactions, and recommended changes to the organizational structure and physical layout, aligning responsibilities more directly under the accounts payable divisional management. We support these changes and encourage management to complete the implementation.

Recommendation 9.1

We recommend that the Department of Health complete its reorganization of the procurement function.

Lack of Purchase Orders and Purchase Requisitions

9.11 The intention of issuing an authorized purchase order is to provide the supplier with a description of goods or services to be delivered and terms of payment. The purchase order is an effective control over the ordering function only if it is prepared during the ordering process. When goods are received, reference to the purchase order ensures the quantity, quality and price of the goods being delivered meet the agreed upon criteria. Without a purchase order, there is no documented record of the agreement between the government and supplier, and no related approval.

9.12 We examined a sample of 37 purchase orders and compared the invoice dates with the dates of the corresponding purchase orders. We concluded that 30 of 37 of our sample purchase orders were produced after the date of the invoice. It appears the goods or services in these cases were procured by telephone or e-mail without a purchase order. The purchase order was prepared after the goods were received and invoiced to meet a technical requirement in the CFMS system which enables payment of a supplier only where there is a purchase order. This process does not result in effective control over the procurement function.

9.13 The Corporate Internal Audit Division at the Department of Finance noted a similar finding in their report (see paragraph 9.4) which stated "*...in the Department of Health most POs* [purchase orders] *are generated after the goods/services have been received and the invoice has been received*". (p. 15)

Recommendation 9.2

We recommend that the Department of Health issue appropriate purchase orders at the time goods and services are ordered. The purchase orders should be properly approved and issued at the time the order is placed.

9.14 In many procurement systems, a purchase requisition must be completed by the individual requesting the goods or services. The requisition is then forwarded to the procurement officer who uses it to complete the purchase order. Our tests indicated that the Department of Health does not complete a purchase requisition in most cases. We believe that such requisitions would help to ensure that purchase orders are appropriately prepared and used.

9.15 Completion of purchase orders subsequent to the delivery and invoicing of goods defeats the efficiencies and controls offered through the CFMS procurement module. The module includes the ability to record commitments under one contract. The system will automatically track individual invoices against the purchase order and commitment. If a purchase order is not created at the appropriate time, the system loses its ability to track the related items.

Extensive Use of Alternative Procurement Exemptions

9.16 The alternative procurement process begins when a department and the Procurement Branch jointly decide there is only one suitable supplier or it is not practical to invite tenders for that good or service. Situations deemed unpractical for tendering are listed in Section 8 of the Provincial Procurement Policy. In all, there are 19 circumstances listed in the Section where alternative procurement practices could be used for procurement transactions (see Exhibit 9.2). Examples include emergencies, compromising confidentiality, goods and services only supplied by one supplier and exceptionally advantageous circumstances.

9.17 The Procurement Policy requires the requesting Deputy Minister or equivalent to recommend alternative procurement practices in specific cases. The 1996 Procurement Policy required the Deputy Minister to seek approval from the Priorities and Planning Committee. The January 26, 2001 Procurement Policy eliminated the previous requirement and requires the Procurement Branch and the requesting department to jointly identify the best means of satisfying the need. Once agreed, the requesting department and Procurement together must seek approval to proceed from the requesting department's Deputy Minister. Latitude also exists in cases of non-agreement for the Deputy Minister to approve the alternative procurement. The approval is to be documented by completing an Alternative Procurement Practices Report form which requires the signature of the Deputy Minister, and forwarding a copy to the Procurement Branch.

9.18 Our audit found that the Department of Health is not compliant with the requirements of the Province's Procurement Policy dealing with alternative procurement practices. We tested a sample of 37 procurement transactions totaling $26.2 million. Of the 37 items, 11 ($2.9 m) were tendered through the Department of Transportation and Public Works, 12 ($22.2m) were supported by properly authorized Alternative Procurement Practices Report forms and 14 ($1.1m) were neither tendered nor supported by such Report forms.

9.19 The Alternative Procurement Practices Report form should be completed prior to purchase to ensure proper approval by the Deputy Minister of a deviation from the Procurement Policy. We found that 5 of 12 forms were not completed until after the purchase was made and the invoice was received.

9.20 The most commonly cited reason for following alternative procurement practices was "*to ensure compatibility with existing technology.*" Such an exemption is sometimes required in an Information Technology environment where the continued use of certain software or hardware is essential to the continued operation of a department. However, alternative procurement should not be used to increase the amount purchased from a supplier who originally won the proprietary position through a tender. This may be an indication that the tender did not adequately cover the requirements of the project. Further, this practice means subsequent purchases from the proprietary vendor will not be subject to a competitive process and there is no assurance that value for money is obtained.

Recommendation 9.3

We recommend that the Department of Health ensure that exemptions under Section 8 of the Procurement Policy (i.e., Alternative Procurements) are appropriately approved and documented on an Alternative Procurement Practices Report form prior to placement of the order for goods or services. The completed forms should be submitted to the Department of Transportation and Public Works.

Inadequate Reporting from DOH to DT&PW

9.21 The Procurement Policy states that the Deputy Minister is responsible to ensure that all Departmental procurements are properly documented and recorded in the Province's Corporate Financial Management System. All alternative procurement transactions are required to be reported to the Minister of T&PW on a regular basis.

9.22 As noted in paragraph 9.18 above, we found that only 12 ($22.2 million) of 26 ($23.3 million) alternative procurement transactions tested were supported at the Department of Health by properly authorized Alternative Procurement Practices forms.

Inadequate Reporting to the Minister of T&PW

9.23 The Department of Transportation and Public Works is charged with the responsibility of reporting all of the Province's alternative procurement transactions to the Minister of T&PW. According to the Government Purchases Act, the Minister of T&PW is responsible for all purchases, but certain duties are delegated to the Departmental Deputy Ministers. The reporting is a key accountability mechanism.

9.24 Our audit included a comparison of alternative procurement transactions recorded within the Department of Health with those reported by DT&PW. We found the report produced by DT&PW to be incomplete and inaccurate. Only 10 ($1.1 million) of 26 alternative procurement practices transactions tested were included on a report completed by DT&PW.

9.25 DOH Procurement and DT&PW Procurement Branch personnel are in regular contact as the Procurement Policy requires considerable collaboration on procurement activities and sharing of documents. However, we found that the Department of Health does not receive a copy of the Alternative Procurement Practices Report prepared by the Procurement Branch for the Minister of DT&PW. We believe the Department of Health should receive this report and review it for completeness and accuracy.

Recommendation 9.4

We recommend that the Department of Health regularly receive a copy of the report prepared by the Procurement Branch of the Department of Transportation and Public Works for the Minister. The Department of Health should review the report for completeness and accuracy.

9.26 Under Section 13 of the Provincial Procurement Policy, Procurement Branch staff, the Department of Transportation and Public Works, through Corporate Internal Audit of the Department of Finance, and the Auditor General all have authority to complete an audit on all procurement activities. Procurement Branch staff do not have a formal audit program and presently only perform reviews on some procurement transactions. Internal audit have completed an audit of the current procurement/accounts payable processes versus the processes recommended under CFMS. Neither the Procurement Branch nor Internal Audit have audited alternative procurement practices and the completeness and accuracy of the Alternative Procurement Practices Report produced by DT&PW.

> ***Recommendation 9.5***
>
> *We recommend that the Procurement Branch and/or Corporate Internal Audit perform periodic audits of exemptions under Section 8 of the Procurement Policy (Alternative Procurement transactions) at the Department of Health to assist the Department in achieving compliance with the Procurement Policy and to assist DT&PW in preparing complete and accurate reports.*

CONCLUDING REMARKS

9.27 The Procurement Policy clearly states that the *"Government of Nova Scotia is committed to...being accountable for procurement decisions"*. Good accountability requires proper approval of exemptions under Section 8 - Alternative Procurement Practices, and reporting to the Minister of Transportation and Public Works according to the Policy. The Department of Health needs to improve its practices in this area.

9.28 The Province has extensive policies in the procurement area, and the Corporate Financial Management System incorporates many good control features. These controls are only effective if they are applied properly. We found instances where the Department of Health was not compliant with either the Department's own internal procurement policies or the Provincial Procurement Policy. Similarly, purchase orders were not properly used to control all purchase transactions.

9.29 During the year, the Department of Health requested the Corporate Internal Audit Division of the Department of Finance to perform a review of its purchasing practices. This is evidence of the Department's desire to improve practices in this area. The Department has indicated that it plans to address all of these issues and we encourage management to do so expeditiously.

Exhibit 9.1

AUDIT CRITERIA

1) Departmental procurement polices should be consistent with the Provincial Procurement Policy.

2) Applicable provisions of the Government Procurement Policies should be complied with by departments.

3) There should be a process to enable management to monitor and ensure that all procurements made by the Department are properly documented and recorded in the Province's Corporate Financial Management System.

4) There should be a system to ensure that reviews of procurement transactions are carried out on a regular and timely basis by the Department.

5) All alternative procurements should be reported to the Procurement Branch.

6) For alternative procurements, there should be an approved recommendation from the Deputy Minister of the requesting Department (post January 26, 2001), or an approved recommendation from Priorities and Planning Committee (post January 1, 1996).

7) Alternative procurement processes should meet the circumstances described in Sections 8.1 to 8.19 of the Government Procurement Policy (see Exhibit 9.2).

8) An alternative procurement practices report should be completed by the Procurement Branch on a regular basis and forwarded to the Minister of T&PW.

9) The Procurement Branch alternative procurement report should be complete and accurate.

Exhibit 9.2

EXTRACT FROM PROVINCE OF NOVA SCOTIA POLICY ON GOVERNMENT PROCUREMENT
JANUARY 26, 2001

8. Alternative Procurement Practices

Departments wishing to make use of an Alternative Procurement Practice, with the exception of an emergency situation, are to consult with the Procurement Branch to identify the most appropriate means by which to proceed with the satisfaction of the requirement. If in agreement, the Department and Procurement Branch will make a joint request to the Deputy Minister of the requesting Department who will then approve or reject the recommendation. In case or cases of a disagreement between the Department and the Procurement Branch the Department may present the proposed Alternative Procurement to their Deputy Minister for consideration and decision.

It is the Deputy Minister's responsibility to ensure that all procurements made by their Department are properly documented and recorded in the Province's Corporate Financial Management System.

Procurement processes other than those described in this policy statement may be used in circumstances such as those described below. Such processes are not to be used for the purpose of avoiding competition or to discriminate against specific suppliers. Each instance requires the prior approval of the appropriate Deputy Minister. These circumstances are:

8.1 an unforeseeable situation of urgency or emergency where the good, service, or construction requirement cannot be obtained by means of open procurement procedures

8.2 a situation where tendering could reasonably be expected to compromise government confidentiality, cause economic disruption, or otherwise be contrary to the public interest

8.3 to ensure compatibility with existing products; to recognize exclusive rights, such as exclusive licenses, copyright, and patent rights; or to maintain specialized products that must be maintained by the manufacturer or its representative

8.4 where, for technical reasons, there is an absence of competition, and the goods or services can be supplied only by a particular supplier and no alternative or substitute exists

8.5 the procurement of goods or services for which there is a statutory monopoly that is controlled by a supplier

8.6 the purchase of goods on a commodity market

8.7 work to be performed on or about a leased building, or portions thereof, that may be performed only by the lessor

8.8 work to be performed according to the provisions of a warranty or guarantee

8.9 the procurement of a good or service to be developed in the course of and for a particular contract for research, experiment, study, or original development, but not for any subsequent purchases

Exhibit 9.2 (Cont'd)

8.10 the purchase of goods under exceptionally advantageous circumstances such as bankruptcy or receivership, but not for routine purchases

8.11 the procurement of original works of art

8.12 the procurement of subscriptions to newspapers, magazines, or other periodicals

8.13 processes that foster the development of minority businesses

8.14 processes that foster the development of sheltered workshop programs

8.15 goods intended for resale to the public

8.16 goods and services from persons with disabilities, philanthropic institutions, or through employment equity programs

8.17 services of expert witnesses, specifically in anticipation of litigation or for the purpose of conducting litigation

8.18 medical services for persons in the care and custody of the Province

8.19 procurement of goods or services from another level of Government

DEPARTMENT OF HEALTH'S RESPONSE

While the Department generally agrees with the findings of this chapter, I would like to comment on progress the Department has achieved in this area.

First of all, it is apparent to the management of the Department that the findings from our procurement process were the result of lack of understanding of provincial procurement policy as opposed to disregard to the policy. To eliminate this situation the Department is developing a Procurement Training Module with staff of the Department of Transportation and Public Works that clearly identifies the roles and responsibilities for line staff with the Department of Health, the Procurement Section of the Department of Health, and the Procurement Section of the Department of Transportation and Public Works. Staff training sessions will begin prior to the last quarter of 2002/03.

The Department would also like to note that we have completed Recommendation 9.1; the re-organization of the procurement functions. As well, it is our belief that as a result of our progress to date, and the above introduction of the training module, we will be fully compliant with the Provincial Procurement Policy.

Thank you for the opportunity of commenting on this chapter of your report.

10.

HEALTH - HOME CARE NOVA SCOTIA

BACKGROUND

10.1 The Department of Health has a concept of continuing care based on an integrated system of health, social and personal services intended to support the health and well-being of individuals with an identified need. Home care services are part of this integrated system.

10.2 Home Care Nova Scotia (HCNS) has been in operation since June 1, 1995. Its mission is to *"deliver an array of services to assist Nova Scotians of all ages who have assessed unmet needs in order that they can achieve and maintain maximum independence while living in their own homes and communities."* This array of services is planned to include chronic, acute, palliative, rehabilitative, self-managed, pediatric and extraordinary assistance home care.

10.3 At the present time, only chronic and acute home care services are provided to all Nova Scotians. Chronic home care is for clients who are convalescing, chronically ill or disabled. The program has stated maximum limits for services to be provided. Chronic home care clients are generally entitled to a maximum of $2,200 per month for combined cost of services and medical supplies. Acute home care is for individuals with acute episodic illnesses who may be treated safely and effectively within the home. Clients are generally entitled to a maximum combined cost of $4,000 per month, or $2,000 for the first 15 days for services and medical supplies. A palliative care pilot project is currently operating in northern areas of the Province.

10.4 The majority of all the nursing, home support and home oxygen services for Home Care Nova Scotia's programs are delivered by service provider agencies. In certain parts of the Province where third-party service providers are not available, services are provided directly by HCNS staff. The Victorian Order of Nurses (VON) is the major supplier of third-party nursing services in the Province, while home support services are provided by a variety of home support agencies, including the VON. With the exception of home oxygen service providers, all of these service provider agencies are not-for-profit organizations.

10.5 There are various agreements between the Department and third-party service providers. The VON contract requires the Province to pay for nursing services on a fee-for-service basis. Home support agencies are funded by the Department on the basis of a line-by-line budget. User fees collected by agencies for home support services provided to HCNS are netted against agency budgets. Clients are not charged for nursing services.

10.6 The integrated system of health, social and personal services includes programs other than home care. These programs - residential care facilities, community residences, small options homes, adult protection services, administration of the in-home support program and the Senior Citizens' Secretariat - were transferred from the Department of Community Services to the Department of Health to facilitate the delivery of this integrated continuing care system.

10.7 With this shift in delivery of programs, the Department of Health has undergone numerous organizational changes since our last audit in 1996. Staff are no longer dedicated solely to Home Care. Home Care operations are provided by Continuing Care staff who are also responsible for other programs which form part of the integrated system of health, social and personal services.

10.8 The government committed to introduce a process of Single-Entry Coordinated Access (SEA) to home care and long-term care services. This involves the development of a single entry process which includes intake, assessment, placement and case management. The process is intended to ensure appropriate and timely access and placement for Nova Scotians who need these services, matching assessed needs to the most appropriate service. The Department of Health established SEA test sites in October 2000 in two District Health Authorities (DHAs) and rolled out SEA Province-wide in the first quarter of 2002-03.

10.9 Home care program expenditures relating to client services have almost doubled in the past five years (see Exhibit 10.1). During the same time period, caseloads continued to grow at a significant rate as well (see Exhibit 10.2). In addition to the increase in overall patient numbers, the percentage of acute care patients has also been increasing, from 7% in 1996-97 to 19% in 2000-01 (see Exhibit 10.2). Year-end statistics for 2000-01 show costs of over $81 million for a caseload of over 25,000 clients. The primary costs include services for nursing care, home support services and home oxygen supply (see Exhibit 10.3).

10.10 There is no single piece of legislation covering home care or continuing care. The Co-ordinated Home Care Act and Homemakers' Services Act are over 12 years old and are no longer relevant because of program changes. New legislation, a Continuing Care Act, is being planned.

10.11 Our audit was conducted during the period from September 2001 to May 2002. Home Care Nova Scotia was last audited by our Office in 1996. A number of recommendations flowed from that audit and an update on the status has been included in the scope of our current audit (see paragraph 10.51).

RESULTS IN BRIEF

10.12 The following are the principal observations from this audit.

- Home Care Nova Scotia's costs have increased dramatically over the past five years. To understand these cost increases, it is important for DOH to monitor costs and develop formal explanations for statistical and financial variances from prior year and current year expectations. We recommend improvements to this process.
- To enhance the accountability relationship with contracted service providers, specific performance targets should be documented in service provider contracts and an assessment of performance against these targets should be made prior to contract renewal.
- The Department is conducting some audits of agencies but the target of auditing each agency annually is not being met. We have suggested that the scope of audits be enhanced to include the user fee collection process.
- The contract rates currently being paid to the VON for nursing services are based on 1996 levels and have been recognized by Department management to be insufficient. Year-end reconciliations to adjust funding to the VON's actual costs add a level of complexity to the funding arrangement that could be avoided. The Department should establish an updated rate for nursing services which would facilitate the budgeting and forecasting of these costs.
- The Department of Health has not used a competitive procurement process to acquire nursing and home support services for this program. Although the Deputy Minister

has the authority to approve alternative procurement processes under the Government Procurement Policy, an exemption has not been documented and reported as required. We recommend that the Department comply with the Policy.

- The Department attempted to rationalize home support agency funding with the development of new funding guidelines for 2001-02. These new funding guidelines are a significant step forward in attempting to provide funding on a consistent basis for all agencies. We recommend that, in conjunction with implementation of the guidelines, the Department review and assess existing controls to ensure that services paid for are valid and authorized by HCNS, and that deficits funded are attributable only to HCNS work, and not a result of poor management practices by the agencies.

- We recommend the Department prepare strategic and operational plans for Home Care Nova Scotia to ensure a common understanding of the program's future direction, and serve as a guide for program management.

AUDIT SCOPE

10.13 The objectives of this assignment were to:

- review and assess the:
    - external accountability relationship between the Department of Health/Home Care Nova Scotia and contracted service providers; and
    - internal relationships within the Department of Health and Home Care Nova Scotia;
- determine whether controls, systems, policies and practices in the areas of procurement of services and products, service delivery and user fees provide for compliance with policies, and due regard for economy and efficiency; and
- review the status and applicability of the recommendations from our 1996 audit of the program.

10.14 The audit criteria were taken from recognized sources including the Canadian Council on Health Services Accreditation's *Standards for Comprehensive Health Services*; the Office of the Auditor General of Canada's *Financial Management Capability Model*; the Canadian Institute of Chartered Accountants Criteria of Control Board's *Guidance on Control*; the Organization of Economic and Cultural Development's *Best Practice for Charging for Government Services*; and Home Care Nova Scotia's *Standards for Quality Service Edition 3* and *Policy and Procedure Manual*.

10.15 The general criteria used in our review are summarized as follows.

- There should be formal contracts with service provider agencies and a protocol for reviewing and signing contracts.

- Service provider arrangements should be in accordance with government procurement policies.

- The contracted agency should provide client services as set out in the Policy and Procedure Manual.
- There should be a clear, documented rationale for the client fee rates chosen and the full cost of the program should be determined. Fees should be collected in an economic and efficient manner.

PRINCIPAL FINDINGS

Planning

10.16 The Department rolled out the Single Entry Coordinated Access (SEA) system Province-wide in 2002-03. Both the clinical performance indicators captured through SEA, and cost and service level information recently introduced for annual financial planning and monitoring are expected to provide input to future strategic planning. Current Branch management recognize the need for adequate strategic planning to better manage the program and comply with the Federal-Provincial initiative on reporting of health performance indicators. According to HCNS management, factors contributing to the lack of strategic planning include Departmental reorganizations, restructuring of Branch management, explosive program growth, information systems and administrative staff resource levels.

10.17 The program does not have documented strategic or operational plans. An adequate planning framework would include longer-range strategic planning and annual operational plans which would set out the actions required in the short term to achieve the long-term plan.

10.18 The deficiency in planning for Home Care Nova Scotia was discussed in paragraph 3.73 of the 2001 Report of the Auditor General. The 2001 Report indicated that, when developing the 2001-02 budget for home care, a proposal was put forth to eliminate light housekeeping with a resulting cost reduction of $3.5 million. The budget was approved by government based on the assumption of light housekeeping being eliminated. As of November 2001, light housekeeping had not been eliminated and the Department seemed unclear about whether there had been direction from government to eliminate this program component.

Recommendation 10.1

We recommend that the Department of Health prepare strategic and operational plans for Home Care Nova Scotia to ensure a common understanding of future direction, and to serve as a guide for HCNS management.

Arrangements with Service Providers

10.19 *VON funding arrangements* - The contract under which VON Nova Scotia provides nursing services dates back to 1994 and expired on April 1, 1996. The per visit rates used to calculate semi-monthly payments to the VON are still the same as the contract which expired in 1996 (RN - $41.47, LPN - $30.66). Each month the VON provides a summary of the number of actual RN and LPN visits made for that particular month. These actual visits multiplied by the old contract rates, plus a lump sum top-up amount of $80,000, comprise the amount of the semi-monthly payment.

10.20 The Department recognizes that the contract rates used to calculate the semi-monthly payments do not reflect the actual costs incurred by the VON to provide the services. Increases in nursing wages, acuity levels of patients, and larger territories requiring VON coverage, have caused the contract rates to be insufficient. Department management has advised us that, due to these increased costs, the decision was made to fund 80% of the VON deficits after adjustments for the cost drivers indicated above. There does not appear to be any formal documentation defining exactly how this deficit is to be calculated. Department management indicated that by not funding 20% of the VON deficits, the VON should be motivated to maintain its cost efficiency.

10.21 At the end of each fiscal year, the Department reviews financial information provided by the VON to determine the dollar value of the VON deficit to be funded. For the 1999-2000 fiscal year the difference between the original contract rates and the actual costs for the VON to provide the services was calculated to be $2.9 million. This $2.9 million included $1.4 million for wage parity costs, $.7 million for new territory costs in excess of the contract rates, and $.8 million for the VON deficit, of which the Department funds 80%. Some of this amount was advanced during the year and the final settlement paid to the VON after netting previous payments was $240,222. At the time of writing this Report, the calculation of additional funding requirements for 2000-01 had not been finalized by the Department as it had not yet received all the required financial information from the VON.

10.22 We reviewed the process used to calculate additional VON funding. Based on our review of relevant documentation and discussions with Department management, the calculation appears to be consistent with the Department's intentions as described to us.

10.23 Although HCNS is the VON's primary client in Nova Scotia, the various branches provide services to clients other than HCNS. Included in the calculation of additional funding to be provided to the VON is an allocation of the administrative costs of the various branches between HCNS and other clients. The Department reviews this allocation for reasonableness using the the VON's audited financial statements. Although this allocation is reviewed by the Department, funding provided based on such an allocation introduces a level of subjectivity to the process and increases the risk that the Department may be paying for expenditures unrelated to HCNS clients. In addition, extra payments to assist VON cash flow problems and adjustments to reflect negotiated settlements make the accurate monitoring and forecasting of program expenditures more difficult. Up-to-date contract rates for RN and LPN visits would eliminate the need for such subjective allocations and possibly eliminate the need for extensive reconciliations at year end.

10.24 At the time of our 1996 audit of Home Care Nova Scotia, we understood the Department's plan for the Home Care Program was to devolve it to the Regional Health Boards. At the time, the Department was reluctant to negotiate a new contract with VON Nova Scotia which might not meet the needs of the various Boards. It was expected that the Home Care Program would be devolved to the RHBs in 1999. The explanation provided by HCNS for the current expired contract with VON Nova Scotia is similar to the one provided in 1996. Department management is currently working toward devolution of the Home Care Program to the District Health Authorities, but no time line has been established.

10.25 The monthly VON nursing visit summaries are supported by detailed invoices for each client which include all of the procedures performed on that client for that month. These invoices are supplied to the Regional HCNS offices where Care Coordinators currently review every invoice to ensure that the visits made have been authorized by HCNS. These invoices, which number in excess of 300,000 annually, are then sent to the Department where the number of authorized visits are compared to the actual visits paid for the same time period to ensure that the Department is only paying for visits that have been authorized.

10.26 We reviewed the Department's comparison between actual visits paid and visits authorized for the 2000-01 year. Although the comparison indicated that there was an insignificant difference, the comparison did not include visits for the Halifax region for a seven-month period between September 2000 and March 2001 (the VON claimed 31,109 RN and 34,449 LPN visits during that time period.) In the fall of 2001, these invoices had still not yet been received by the Department's Finance section. Management has indicated that they are aware of the delays in receiving invoices and are currently taking corrective action.

Recommendation 10.2

We recommend that the Department of Health review the current process for approving payment of invoices for nursing services. The approval process should ensure that all services paid were authorized by Care Coordinators, and all information necessary to complete the verification should be available on a timely basis.

10.27 When reviewing the analysis of paid visits to approved visits, our Office requested information from HCNS staff to explain why the ratio of RN visits to LPN visits was not consistent among the various regions. Northern Region information provided by HCNS management indicated that there were 10,000 more RN visits than LPN for 2000-01 (see Exhibit 10.4). All other regions for the same time period had more LPN visits than RN. HCNS management provided plausible explanations for the differences but could not provide any details supporting the explanations. Explanations of variances are especially important because of the escalating costs of the Home Care program.

Recommendation 10.3

We recommend that the Department of Health prepare comparisons of Home Care Nova Scotia financial results and performance information to expectations, standards, and prior year figures for the program as a whole, and also among regions. Any resulting variances should be investigated and explained to ensure that program costs are properly understood and managed.

10.28 *Home support agency funding* - Home support agencies are provided annual funding. The basis for funding is the prior year's approved budget. The prior year's budget is adjusted for estimated increases in service utilization (12% for 2001-02), expected user fees and an additional adjustment to fund the prior year's deficit or claw back any surplus funding. As indicated in the new home support funding guidelines (see paragraph 10.30 below) the Department intends to no longer fund agency deficits starting in the 2002-03 year.

10.29 Payments are made to agencies on a semi-monthly basis. Department management has indicated that agency deficits are funded because the Department controls the flow of new patients into the program and the home support agencies are required to provide the volume of service at whatever level is required.

10.30 The actual annual approved level of funding is calculated by HCNS regional staff and approved by the Department through its budget process. Department management has indicated that there is very little documentation supporting the deficit calculations for the various agencies in the past. Due to this lack of documentation, it is difficult to determine if the deficits funded have been calculated consistently. Department management has indicated that it is aware of this situation and has developed new guidelines to be used for the regions when determining funding levels. These new funding guidelines are designed to make funding more consistent and improve financial information to be used in the budgeting and forecasting of program expenditures in the future. The Department has indicated that deficits will no longer be funded.

10.31 Department management indicated that most of the funded home support agencies provide services primarily to HCNS clients but there are exceptions. Some of the agencies do provide similar services to non-HCNS clients as well. The risk of funding these organization's deficits, similar to the VON, is that a portion of the deficit funded may relate to services provided to non-HCNS clients. In the past the Department has required these agencies to provide financial statements in an attempt to identify the portion of expenditures unrelated to HCNS. Department management has indicated that these statements were not always received on a timely basis and in some cases did not provide adequate information regarding other sources of income and expenditures to determine the proper allocation. In these cases there is a real risk that some portion of the funding provided by HCNS was not related to HCNS clients. The new funding guidelines require that audited financial statements be provided by July 31 of the following year.

10.32 Traditionally the Department has required home support agencies to provide monthly reports on operations. This information included budget to actual comparisons for revenues and certain expenditure categories. The monthly reports also included operational statistics including the actual direct hours of service for the month, year-to-date, and forecasted to year-end. Home support agencies are not required to provide invoices showing the actual services provided to each client to HCNS staff for review and approval.

10.33 The Department has attempted to rationalize home support agency funding with the development of the new funding guidelines for 2001-02. These new funding guidelines are a significant step in attempting to provide funding on a consistent basis for all agencies.

Recommendation 10.4

We recommend that the Department of Health, in conjunction with implementation of its new home support agency funding guidelines, review controls over funding to home support agencies. The controls should be sufficient to ensure that payments are made only for authorized services, and that any deficits funded are not the result of poor management practices or services unrelated to HCNS.

10.34 *Service provider performance measurement* - We examined a sample of service provider contracts with the VON, home support agencies (including the funding guidelines), and home oxygen suppliers. All clearly indicated the responsibilities of each of the contractual partners including the requirement to provide specific reporting of certain financial and operational information. Contracts also included a requirement to comply with HCNS policies, procedures and standards of care.

10.35 Specific performance and quality improvement expectations in respect to efficiency and effectiveness of operations have not been established for each service provider. We believe that the Department, in conjunction with service providers, should establish quality and performance expectations and that the service providers' results against these expectations should be assessed prior to contract renewal. Clearly-defined performance expectations along with agency audits as discussed in paragraph 10.41 should provide for a more complete assessment of service provider performance.

10.36 *Compliance with Government Procurement Policy* - The Department of Health has not used a competitive process to acquire nursing and home support services for HCNS. VON Nova Scotia has been providing nursing services for this program since HCNS came into operation. The contract expired on April 1, 1996. VON Nova Scotia continues to provide the nursing services under the terms of the expired contract. HCNS routinely issues renewal contracts with home support agencies for the provision of HCNS home support services.

10.37 Although the Deputy Minister has the authority to approve alternative procurement processes under the Government Procurement Policy, the exemption has not been documented and reported as required.

10.38 The procurement of home oxygen service providers conforms with the Government Procurement Policy.

> ***Recommendation 10.5***
>
> *We recommend that the Department of Health review the arrangements for acquisition of nursing and home support services for Home Care Nova Scotia. The Department should comply with the Government Procurement Policy and either subject these services to a competitive process, or seek the required approval for an exemption. The Department should also determine whether future contracts should be Province-wide or whether each DHA should have responsibility for its own arrangement. Contracts should include clearly-defined performance expectations and require reporting of achievement.*

Standards for Quality Service to Clients

10.39 *Policy and Procedure Manual* - Home Care Nova Scotia maintains a Policy and Procedure Manual which documents the main policies and procedures of the program. It is expected that the manual will facilitate and promote consistency in the delivery of core services across the Province and provide a framework for the regional implementation of home care and the development of regional procedures as the program matures. The manual is updated as policies and procedures are implemented or revised.

10.40 *Compliance with administrative standards* - We reviewed a small number of client files to determine whether there was compliance with HCNS documentation and administrative standards established for client services and records. We found no significant discrepancies.

Program and Service Evaluation

10.41 *Compliance audits* - Home Care Nova Scotia policies provide for an audit of service provider agencies to determine whether agencies are complying with HCNS policies and procedures. These audits are to be performed on a regular basis according to a predetermined schedule. Department management indicated that each agency should undergo a compliance audit in each fiscal period. This target is not being met.

10.42 *Agency auditing tool* - To facilitate conducting agency compliance audits, HCNS has developed an agency auditing tool which includes standards against which agency compliance can be measured. The most recent edition of the agency audit tool became effective in 1999 in preparation for an accreditation survey by the Canadian Council on Health Services Accreditation (CCHSA) in 2001 of the Home Care Nova Scotia Program. This accreditation survey did not take place.

10.43 In many cases, conducting agency compliance audits is the single most effective method of determining compliance with HCNS policies and procedures. As part of the compliance audit, the auditor examines client files, agency systems and documentation to ensure that the agency is providing service as authorized by HCNS; that the time spent providing the service is consistent with the time authorized; and that the actual visit and tasks performed are properly billed to HCNS. If used in an appropriate manner, the agency audit tool would be an effective control to ensure that the agencies comply with HCNS standards.

10.44 In November 2001, we reviewed the most recent compliance audits conducted on the 32 service provider agencies. Our review indicated 4 audits (13%) conducted since April 1, 2001; 7 (22%) conducted in the 2000-01 fiscal year; and 21 (65%) being conducted prior to April 1, 2000.

10.45 More than half of the agency compliance audits were conducted prior to April 1, 2000. Home Care staff indicated there are several reasons for failing to conduct agency audits according to the predetermined schedule such as workload including non-audit related responsibilities and difficulties establishing mutually agreeable audit schedules with the service provider agencies.

Recommendation 10.6

We recommend that the Department of Health assess its objectives for agency audits, the associated risks, and resources available. The Department of Health should develop and implement a plan for agency audits.

10.46 *Performance indicators* - As at the date of the audit, no performance indicators had been developed for the program. HCNS management has indicated that it plans to make use of the information captured using the new automated MDS Assessment tool to begin to develop performance indicators and report on program performance. This new MDS Assessment tool provides Client Assessment Protocols used by Care Coordinators in making decisions on patient needs.

Client Fees

10.47 Through the service provider agencies, Home Care Nova Scotia provides nursing services to clients for no charge, home support services for $8 per hour to a monthly maximum of $480 and home oxygen services to a maximum monthly fee of $180, depending on client income. See Exhibit 10.5 for a reproduction of Schedule 1 - Home Care Fee Determination Tables 2001-02. All fees are collected from the client by the service provider agency and offset the agency expenditures funded by HCNS.

10.48 At the present time HCNS does not have procedures in place to ensure that Care Coordinators calculate client fees properly and home support agencies exercise appropriate collection effort. The Department of Health has estimated that only 6% of home support services generate a client fee, as the majority of clients fall below income thresholds.

10.49 The fees charged to the client are not intended to recover the full cost of providing the service. There is no charge for nursing services. The rationale for the home support and home oxygen fees is based on the client's ability to pay and on a maximum amount subjectively determined by HCNS to be an appropriate charge. HCNS has not attempted to determine the full cost of providing nursing, home support and oxygen services.

10.50 There is no schedule for reviewing client fees. Client fees and monthly maximums were last reviewed in April 2000 in response to a Department of Health initiative exploring options for reducing the expenditure budget.

Recommendation 10.7

We recommend that the Department of Health include client fees and collection practices in the scope of its agency audits. We also recommend that the Department perform regular comparisons of the full costs of home support and oxygen services to the fee schedule to ensure that the charge is appropriate.

Follow-up to 1996 Audit

10.51 Chapter 7 of the 1996 Report of the Auditor General included a number of recommendations for HCNS. Exhibit 10.6 includes the major recommendations from that audit and the Department of Health's comments with respect to current status.

10.52 Although many recommendations have been implemented, some have not been acted upon by the Department. The most significant of these is that VON Nova Scotia still provides services without a contract. The new Agency Audit Tool put in place effective January 1999 addresses some of the concerns we had in 1996 as shown in Exhibit 10.6.

Internal Audit Findings Follow-up

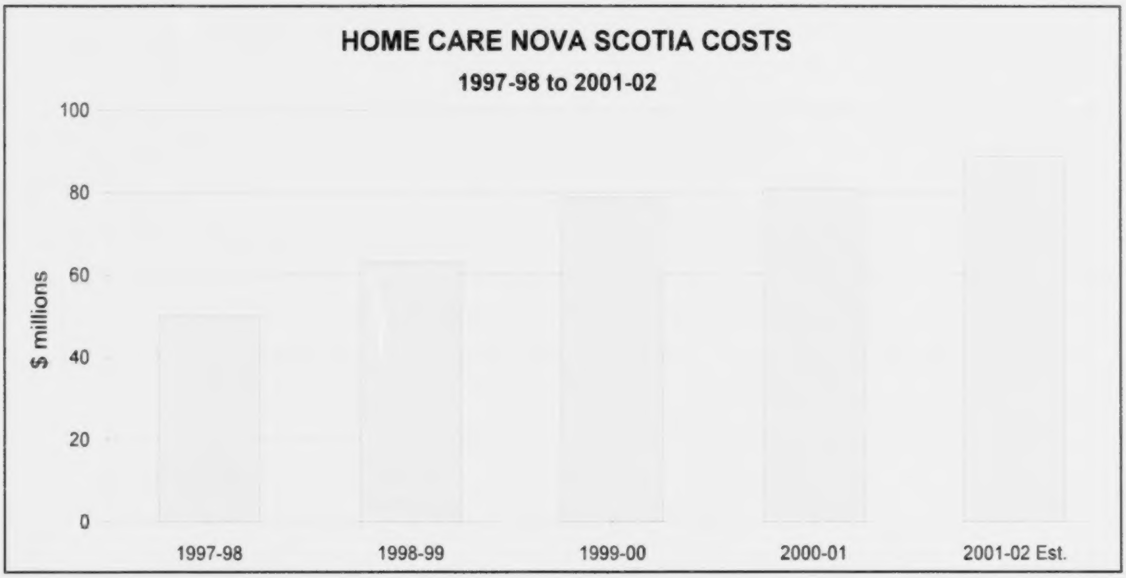
10.53 As part of our audit procedures we reviewed and followed up on findings included in the Department's internal audit reports relating to the operations of HCNS since the date of our 1996 audit. Based on our discussions with management and review of relevant documentation, all significant findings reported have either been adequately addressed or are no longer relevant.

CONCLUDING REMARKS

10.54 Nursing services acquired from the VON have never been subjected to a competitive procurement process and the contract expired in 1996. Seeking competitive proposals would provide assurance that services are acquired at a reasonable cost. We recommend that the Department comply with the Government Procurement Policy by calling for competitive proposals for nursing services, or seek a formal exemption under the appropriate section of the policy. The Department apparently plans to devolve the HCNS program to the District Health Authorities at which time the DHAs would determine how the service will be delivered in their districts, within the policies and standards established by the Department of Health. The DHAs would also be required to comply with the Procurement Policy or seek an exemption.

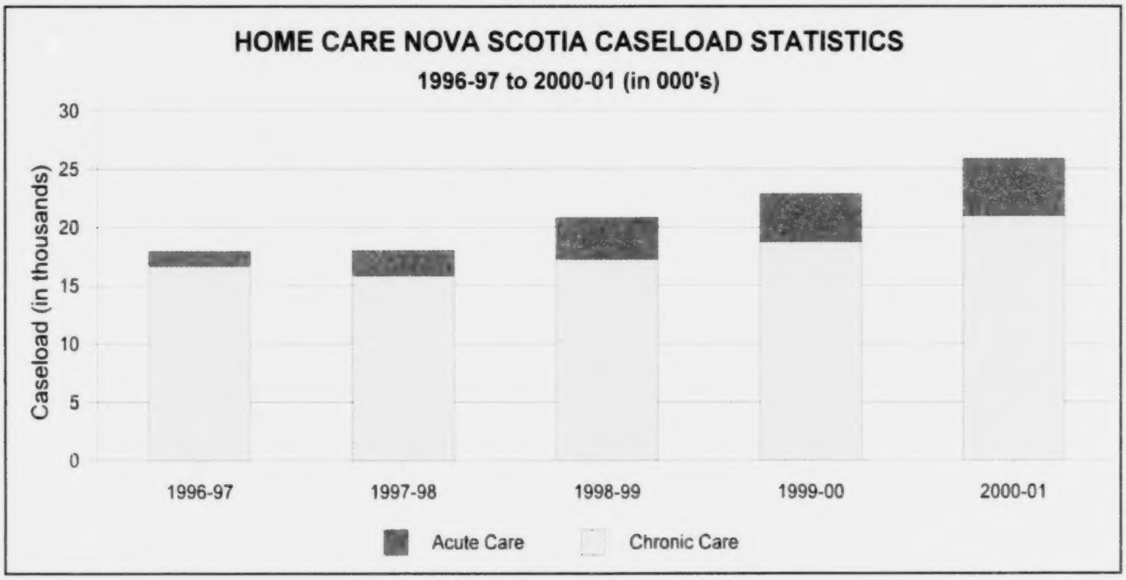
10.55 HCNS' costs have increased dramatically and the majority of HCNS program expenditures relates to payments made to third-party service providers. Therefore, control over program expenditures and quality of care depends to a large degree on the Department's ability to ensure that the service providers are providing services consistent with HCNS requirements at a reasonable cost. We believe the Department needs to make significant improvements in the management of service providers. Setting performance targets for service providers, reporting on performance, and the more effective use of agency audits are key steps to enabling the Department to better monitor these relationships in the future. We acknowledge that the Department has identified some problem areas and has begun to take steps to address them.

Exhibit 10.1



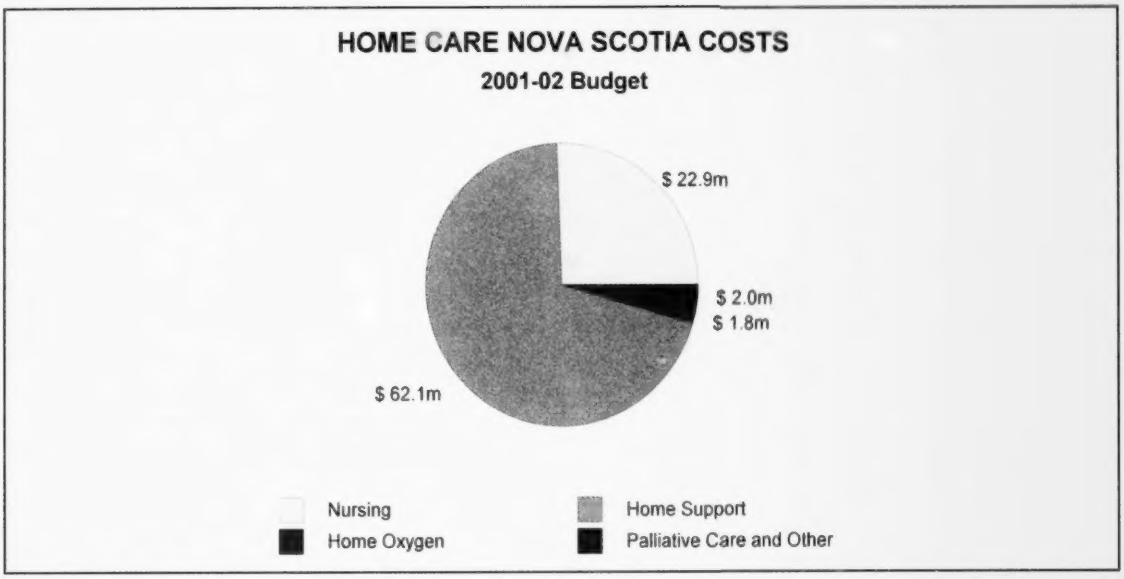
Note: *Does not include the costs of administration, assessment or former community services programs now administered by HCNS.*

Exhibit 10.2



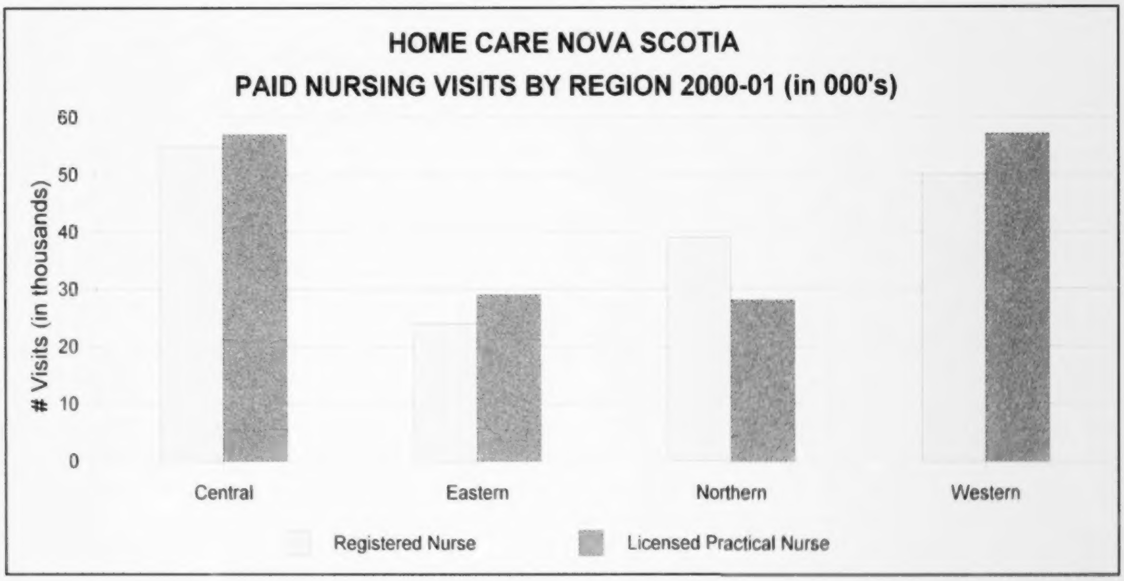
Source: Department of Health

Exhibit 10.3



Note: Does not include the costs of administration, assessment or former community services programs now administered by HCNS.

Exhibit 10.4



Source: Department of Health

Exhibit 10.5

Schedule 1

EXTRACT FROM HOME CARE FEE DETERMINATION TABLES 2001-02
Client Income Category Table

Income	**Family Size**							
Annual	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
$0 to $15,720	A	A	A	A	A	A	A	A
$15,721 to $31,440	B	A	A	A	A	A	A	A
$31,441 to $36,672	C	B	A	A	A	A	A	A
$36,673 to $41,904	D	C	B	A	A	A	A	A
$41,905 to $47,136	E	D	C	B	A	A	A	A
$47,137 to $52,368	F	E	D	C	B	A	A	A
$52,369 to $57,600	G	F	E	D	C	B	A	A
$57,601 to $62,832	G	G	F	E	D	C	B	A
$62,833 to $68,064	G	G	G	F	E	D	C	B
$68,065 to $73,296	G	G	G	G	F	E	D	C
$73,297 to $78,528	G	G	G	G	G	F	E	D
$78,529 OR MORE	G	G	G	G	G	G	F	E

Personal Care/Home Support Services/Home Oxygen Services
Fee Determination Table 2001-02

Home Care Client Income (Code-from above table)	**Charge per Hour Client Fees**	**Maximum Monthly Client Fee Charge**	**Monthly Home Oxygen Services Fee**
A	---	---	---
B	$8	$80	$60
C	$8	$160	$120
D	$8	$240	$180
E	$8	$320	Not eligible
F	$8	$400	Not eligible
G	$8	$480	Not eligible

Exhibit 10.6

HOME CARE NOVA SCOTIA
FOLLOW-UP ON STATUS OF RECOMMENDATIONS FROM 1996 AUDIT

Paragraph	Recommendations from 1996 Audit	Status per Department of Health
7.31	DOH has started working in partnership with the RHB's to define service delivery options. DOH is undertaking some changes and RHB's will continue to pursue any number of options to secure nursing services necessary for delivering the program. Although we understand DOH does not want to lock itself into a contract situation which may not meet the needs of the regional health boards, we believe the current contract rate should be reviewed to ensure it provides the most economical means of obtaining nursing services. To control costs between now and April 1999, DOH should explore other options for delivery and funding of nursing services to determine if costs can be reduced.	Department's business review process addressed these issues. Services provided under same arrangements while minimizing service provider costs.
7.35	We noted that the letter provided to home support agencies indicating their budget allocation for the year does not specifically require adherence to Home Care Nova Scotia policies and procedures, and it does not contain an audit provision. We recommend these features be incorporated into any agreements with service providers. We also recommend that DOH explore other options for delivery and funding of home support services to determine if costs can be reduced.	Mentioned specifically in Letters of Understanding with agencies and business review process addressed these issues. Services provided under same arrangements while minimizing service provider costs.
7.38	There is an informal Peer Review system at Home Care Nova Scotia which allows Care Coordinators to receive feedback as to the appropriateness of their assessments. We believe this system should be formalized and include a periodic review of selected Care Plans to ensure the appropriate provider has been authorized, and to ensure volunteer services have been appropriately considered.	Informal process augments formal documented processes.
7.38	There are documented time frames for completion of assessments for clients entering Home Care Nova Scotia through discharge from hospital or upon referral to Home Care Nova Scotia by a physician. These individuals are contacted by a Care Coordinator within 3-4 days of admission into Home Care Nova Scotia. We noted that there are standard response times for contacting clients who access Home Care Nova Scotia through the 1-800 number. We believe standards should also be established for the initial assessment of clients entering Home Care Nova Scotia, and for the reassessment of existing clients.	Initiated in 1998 and not completed, but is now reorganized in broader context of SEA. MDS-HC when implemented recommends quarterly assessments.

Exhibit 10.6 (Cont'd)

Paragraph	**Recommendations from 1996 Audit**	**Status per Department of Health**
7.38	Some Chronic Home Care clients are charged for home support services. The maximum charges for home support services are $6 per hour to a maximum of $360 per month. There is no charge for nursing services for Chronic Home Care of Home Hospital Care clients. Home Hospital Care clients are also not charged for medication and supplies related to their acute condition. Chronic Home Care clients are not charged for supplies during nursing visits. Individuals who require nursing services through Home Care Nova Scotia are automatically eligible for home support services which may be billed. Home support services only are available to others who meet financial criteria. Policies state that "low risk individuals who require only cleaning and laundry, who are financially able to make provision for such service, are ineligible for admission to the program." We believe that this policy is not specific enough and that the term "financially able" should be more clearly defined.	Policy area is under review at present and the fee schedule is one of the key areas of review. SEA policy committee to review.
7.38	Home support charges to clients are based on Canada Assistance Plan income guidelines. However, clients are not required to provide any proof of income. The policy manual notes that income inquiries need not be made of individuals who are willing to pay the maximum home support fee per month ($360). A system should be implemented by Home Care Nova Scotia to verify clients' income to external sources.	Not all Care Coordinators have direct on-line access to computers. In future, may be a consideration. At present, we request to see copy of Income Tax return and use line 236 figure.
7.48	Agency audits were performed for the first time in mid-1996. We were informed that the purpose of this first attempt at agency audits was to familiarize both the auditors and the agencies with the concept of testing compliance to standards. Contracts with these agencies do not presently include a provision for these audits to take place and we recommend that Home Care Nova Scotia obtain the proper authority.	VON contract not revised. Same one still in effect.
7.52	The Agency Audit Tool should provide guidelines for the number of client and personnel files to be examined during the audit.	Considered, but not documented in Tool.

Exhibit 10.6 (Cont'd)

Paragraph	Recommendations from 1996 Audit	Status per Department of Health
7.52	The Agency Audit Tool should require that the documentation be examined for completeness and accuracy. For example, the required documentation for one standard is a supervision schedule. Checking for existence of the schedule is not sufficient. The Tool should require the auditor to review the schedule to determine whether all service providers have been observed, or will be observed, by the agency supervisor while performing their duties in a client's home. The standard should also be expanded to indicate whether the Supervisor has observed that the care giver is providing only those services authorized by the Care Coordinator.	Documented in Audit Tool Edition 3 - Standard 9.1 - Indicator 9.1.6 and page 18.
7.52	One of the finance standards requires the auditor to ensure all services billed to Home Care Nova Scotia have been provided by employees of the agency; all services invoiced have been provided; and that the agency complies with Home Care Nova Scotia program guidelines and its contractual obligations or funding agreements in connection with the submission of invoices. This standard presently applies only in nursing agencies. The standard should be reworded so that it is applicable to home support agencies as well.	Documented in Audit Tool Edition 3 - 5.3.3, Standard 5.2, and applies to all - see page 9 definition of agency.
7.53	We reviewed audit files and/or reports resulting from the 31 agency audits conducted to date. The results of agency audits are reported to the Director of Home Care Nova Scotia and to DOH senior management. There is a requirement to follow-up on the recommendations made to the agency as a result of the audit within three months of the audit. Follow-up procedures have not taken place to date and we recommend that these be performed during the next round of agency audits.	Spelled out in development/refinement of audit process, Edition 3 of Audit Tool.
7.56	The linkage between the survey questions and the objectives of the program was not strong....We recommend that survey questions and other evaluation methods be designed to relate to specific program objectives.	Use professional(s) to survey and develop.
7.64	Home support agencies provide monthly reports to Home Care Nova Scotia regional offices. The reports indicate the total number of service hours for Home Care Nova Scotia clients although they are not broken down by service hours per client. The service hours are not verified to service hours per the care plan and we recommend this be done as part of the agency audits as noted in paragraph 7.52.	Documented in Audit Tool Edition 3 - Standard 9.1 Indicator 9.1.5 and Standard 5.3 Indicator 5.3.3

11.

HEALTH -
NOVA SCOTIA HEALTH RESEARCH FOUNDATION

BACKGROUND

11.1 The Nova Scotia Health Research Task Force, established in 1996, reported that health research in Nova Scotia was *"severely disadvantaged"*. Although *"pockets"* of research existed, Nova Scotia was impaired because the Province had no *"coordinating mechanism"* and a shortage of funding. The Task Force recommended establishing a research foundation. The Nova Scotia Health Research Foundation Act received Royal Assent on December 3, 1998 and was proclaimed in January 2000. The Foundation became a nucleus for a collaborative and integrated health research community in Nova Scotia. The Board of Directors consists of at least ten persons appointed by Executive Council after consultation with and receipt of nominations from health agencies, health charities, health professional bodies, the health research community and the public.

11.2 The legislation sets out three main purposes of the Foundation:

- fostering health research throughout the Province by assisting, collaborating with and funding individuals and organizations (universities and hospitals) conducting research;
- increasing public knowledge and awareness of the Foundation and its benefits; and
- studying matters, consistent with the priorities identified by health boards, government, institutions, and individuals, and reporting its findings to the Minister.

11.3 In addition, the Foundation offers workshops, develops collaborative programs, and fosters discussions with researchers.

11.4 The Foundation offers two types of grants, operational and personnel support, in four areas. Administration is limited to a maximum of 15% of expenditures. Regulations set limits on the amount of research expenditures in the four areas as follows:

- 40% medical research
- 15% health outcomes
- 15% health services
- 15% health public policy

11.5 Exhibits 11.2 and 11.3 show actual grants by purpose for 2001-02, along with the target purposes specified in the Regulations.

11.6 The Foundation funds its capacity-building programs as well as the operational expenses from the 15% allocated to administration. In its first two annual award competitions, operating grants were for building research capacity and provided initial support to a researcher or program for the first one or two years prior to the researcher seeking continuing support from an agency providing research funding for a longer term. Personnel grants are for research in accordance with the Foundation's objectives and are used to support Masters or PhD students training under a researcher, or *sponsor*, with a full-time appointment in a Nova Scotia academic institution. Research project grants are currently available for up to three years.

11.7 Interested applicants must compete for funding grants. Since the Foundation began operations in January 2000, two competitions have resulted in grant awards of more than $9 million. The Foundation receives funding to pay the grants from the Department of Health.

11.8 All grant applications are reviewed by Peer Review Committees. The role of these committees is to review and assess the scientific merit of all applications, and decide on which projects are suitable for funding. The Committees are governed by a set of guidelines very similar to the rules and regulations of the Federally-funded Canadian Institutes of Health Research (CIHR).

11.9 In addition to holding its own competitions, the Foundation also supports the Canadian Health Services Research Foundation's (CHSRF) research initiatives through the matching grants program. The purpose of the matching grants program is to provide partnership support for established Nova Scotia researchers to secure national research grants. The Foundation provides matching funds for Nova Scotia researchers successful in the open grants competition held by the CHSRF. The Foundation provides up to 40% of the funds required. The Foundation's contributions to Federal matching initiatives totaled $156,275 in 2000-01 and $483,954 in 2001-02. The Foundation provides $500,000 annually to support the Regional Partnership Program of CIHR. This program usually provides 25% of the funding, to match 25% secured by the researcher and 50% provided by CIHR. Other matching funds are provided as the budget allows.

11.10 The Foundation also became responsible for administering Canadian Health Services grant funds of $113,378. The funds were transferred from the Department of Health and are restricted to support the Canadian Health Services Research Foundation's (CHSRF) open grants competition.

11.11 The Foundation is administered by a 12-member Board and employs three staff.

11.12 Section 15(a) of the Auditor General Act gives the Auditor General the authority to perform broad scope audits of agencies of government. This was our first broad scope audit of the Foundation. Public accountants audit the annual financial statements of the Foundation and have issued unqualified audit opinions to the Directors of the Foundation for each of the two fiscal periods to date.

RESULTS IN BRIEF

11.13 The following are the principal observations from this audit.

- The Foundation's review and approval of applications is based on established criteria and a peer review process. The Peer Review Committee is comprised of individuals possessing the necessary skills and experience.
- The Foundation's strategic planning initiative should be completed, including establishment of performance targets and measures. These measures and targets should be used as the basis for performance reporting. In addition, the three-year plan should be completed and submitted to government as required by the Health Research Foundation Act.

- To improve accountability for granted funds, formal agreements setting out the conditions and responsibilities of each party should be required and signed by the Foundation, the sponsoring institution and the grantee.
- Our audit testing revealed that grant payments to sponsoring institutions in the first two competitions did not require ethical approval by a duly-constituted institutional research ethics committee prior to release of funds to the institution. The Foundation has modified the funding requirements to include ethical approval prior to release of funds to the administering institution.
- There is a need for the Foundation to improve its practices for monitoring the results of grant expenditures. We recommend that the Foundation require the sponsoring institutions to certify that the grant funds have been expended in a manner consistent with the requirements of the Objectives and Guidelines.
- The Health Research Foundation does not have a written investment policy. We recommend that the Board approve an investment policy to provide guidance for staff and professional investment advisors when investing Foundation funds.
- The Department of Health is currently forwarding its annual funding to the Foundation before the funds are required to be disbursed to grant recepients. Although the Foundation is investing these excess funds, we recommend that the Department of Health reconsider its timing of the payment of the annual grant to the Foundation to provide for a better matching with the cash flow needs of the Foundation.
- The Foundation requires two signatures on cheques in amounts greater than $50,000, but only one signature for lesser amounts. We recommend that two signatures be required for all cheques.
- During the 2001-02 Estimates process, the Department of Health requested approval from central government of a $5 million budget for the 2001-02 grant to the Foundation. This amount was based on the Foundation's submission to the Department. The government only approved $2.5 million which was the same as the budget approval for the prior year. For two consecutive years (2000-01 and 2001-02), government included only $2.5 million for the grant to NSHRF in the Estimates, but the actual grant was $5 million each year. We recommend that the government appropriately budget the grant to NSHRF based on operational plans, legislative and other commitments and historical experience.

AUDIT SCOPE

11.14 The objectives for this assignment were to:

- review and assess the Health Research Foundation's strategic planning procedures;
- review and assess the accountability framework of the program;
- review and assess whether grant applications were evaluated and processed in accordance with the established policies and procedures and whether practices followed were appropriate;

- assess the Health Research Foundation's monitoring procedures with regard to continuing eligibility;
- assess the Health Research Foundation's disbursement procedures; and
- review and assess the Health Research Foundation's financial management procedures with respect to investing activities.

11.15 Our approach included interviews, review of documents, and detailed testing of a sample of grants from both the 2000-01 and 2001-02 competitions.

11.16 The criteria were taken from the Office of the Auditor General of Canada and Treasury Board of Canada Secretariat publications:

- *Modernizing Accountability Practices in the Public Sector*, a joint paper by the Office of the Auditor General of Canada and the Treasury Board Secretariat, 1998;
- *A Framework for Identifying Risk in Grant and Contribution Programs*, the Office of the Auditor General of Canada, in collaboration with Industry Canada, 2000; and
- *Policy on Transfer Payments*, Treasury Board of Canada Secretariat, 2000.

11.17 Other sources of criteria included the Health Research Act and Trustee Act.

11.18 The general criteria used in our review are summarized as follows.

- The organization should have a plan for the future, monitor progress in achieving the plan, and take corrective action as required.
- Accountabilities and responsibilities should be clearly defined.
- There should be controls over grant approval, disbursement and monitoring processes.
- Investment policies and procedures should be established.

PRINCIPAL FINDINGS

Accountability

11.19 The objectives of the Foundation are set out in legislation. The legislation also sets out limits for expenditures as noted in paragraph 11.4, but does not specifically outline accomplishments expected.

11.20 The Foundation has established a mission statement. In addition, the Foundation commissioned a survey to measure the awareness and importance of health research to Nova Scotians, which illustrates the Foundation's desire to clarify the role it should assume in Nova Scotia's health research community. The Foundation has a number of planning initiatives as set out in Exhibit 11.1 and considers these to be long-term in nature. Operational requirements arising from the first two competitions impacted the Foundation's ability to complete formal long-term plans.

11.21 In an accountability relationship, it is important that each party's roles and responsibilities are well understood and agreed upon, and that there is reporting on the entity's performance in discharging its responsibilities. The Health Research Foundation Act defines the Foundation's reporting responsibilities and the Foundation has tabled an annual report as required. In addition, the Foundation has complied with Section 4 of the Act by submitting its annual budget. However, the Foundation has not yet complied with Section 13 of the Act which requires the submission of a *"three year plan of* [the Foundation's] *proposed activities, including amounts estimated to be necessary for its financial-support programs and administrative support"*.

11.22 The Foundation's financial statements do not include a comparison of actual and budgeted results for the year. This would increase accountability for performance in achieving the financial plan.

11.23 The Foundation has gone through only two competitions for grants, and only one of those competitions was with a permanent Board and management. Most grants have a minimum two-year research time period. As a result, it is too soon in the process for reporting on program performance. However, in order to measure the success of the programs, the Foundation needs explicit, well-understood and agreed-upon criteria. Such measures do not currently exist. These should flow from the strategic planning initiative. The Foundation has done some strategic planning through development of Ends Policies and we encourage management to continue its efforts in this area.

11.24 The Foundation requires all grantees to submit a progress report after the first year of research. The progress reports are used to measure performance on an individual project basis. Because the Foundation's goals are not yet developed at the program level, the overall performance of program goal achievement is not measured. We suggest the Foundation consider the need for better program performance reporting. This recommendation is consistent with the need to proceed with a strategic planning process.

Recommendation 11.1

We recommend that the Foundation continue its efforts to implement a strategic planning initiative, and submit a three-year plan as required by the Act. The Foundation should report its performance in achieving plans and targets including a comparison of actual to budgeted financial results and reporting of program performance.

11.25 One of the Foundation's objectives is to increase public knowledge and awareness of the Foundation and its benefits. The Regulations require 5% of administration funding to go to public awareness. In attempting to achieve this, the Foundation's grant applications and guidelines are posted on the Foundation's website and are more widely disseminated at the institutions which are likely to be the source of applications. As well, the Peer Review Committee members are selected from these same institutions and this creates awareness of opportunities in the community. The Foundation budgets 7% of administration for communication and public awareness which is slightly in excess of the Act requirement of 5%.

Application Assessment and Adjudication

11.26 Candidates submit applications to the Foundation office and the pertinent information is recorded in a database. Assessment is completed by a peer review committee. However, before grants are awarded, applications are reviewed by internal and external referees whose role is to thoroughly review and rate the application based on Foundation criteria. Before the peer review committee meets, reviewers receive all applications and are required to be familiar with the objectives of the projects and the applicants' experience. The final assessment takes place at a peer review committee meeting where internal reviewers announce their ratings and present the specific assessment of the application. Comments of the external referees are also addressed. Finally, an overall rating is awarded by the committee; the grant amount is suggested; and the term of support for the grant determined. This information is then provided to the Executive Director who brings it forward as a formal funding recommendation to the Board of Directors for approval. Following such approval, successful applicants are informed by mail.

11.27 It is important that more deserving projects are funded at an appropriate level. The peer review process scores applications and funds the applicants with the higher scores first. This process is consistent with national standards set by CIHR and CHSRF and provides assurance that quality research is being conducted and grant monies are achieving the best possible results for each dollar. The peer review committee members are selected for research excellence and the breadth of knowledge and maturity of judgment to ensure grants are effective in achieving the goals of the Foundation. The committee composition also represents all health research themes related to the Foundation's mandate: medical; health services; health outcomes; and health policy. The Foundation has adopted the peer review guidelines of the CIHR which management indicates are widely considered the scientific standard for Canada.

11.28 To enhance applicant confidence in the process, the individual members of the peer review committee must meet a high minimum standard. Members are selected based on their ability to obtain continued extramural peer-reviewed grant support for a research program. This represents a standard of excellence in the scientific community. To assist in preserving a high standard of confidence in the application process, the Foundation adopted a Code of Conduct to govern the behavior of its members. Committee members must also avoid conflict of interest by excusing themselves from discussions about granting funds to members of the same institution or others with whom they have a relationship that could be perceived as bias.

11.29 The committee must have a breadth of knowledge and expertise to be able to make decisions on the wide range of research topics eligible for grants. To achieve this members are selected from a range of research areas and relevant methodologies. While it would be effective to have an established service term, the Foundation has no such policy currently, but plans to move toward a term approach based on input and advice from current review committee members.

11.30 Predetermined assessment criteria for applications are essential to the credibility of the program. To ensure criteria are known to all applicants, the criteria must be made public and, to ensure freedom from bias, the criteria must be applied consistently. The grant application and review process is clearly described in the information provided to applicants. Application information is on the Foundation's website and in the Foundation's Research Funding Program Guide.

11.31 The Executive Director and Foundation staff provide significant administrative guidance to the Board and peer review committee. Staff understand the eligibility criteria and pre-screen applications for eligibility under the Foundation's non-scientific criteria before accepting applications or distributing grant funds. Our testing of a sample of files found no instances where ineligible applicants had received funding.

11.32 Staff do not verify details to ensure applicants' information is reliable and complete. Instead, the Foundation relies on the institution to verify and sign that the submitted information is accurate. We were advised of one occurrence of an applicant being approved for funding where information included on the application was erroneous. The erroneous information was detected and the applicant was removed from the competition process. To ensure that applicant information is complete, accurate and reliable, we suggest that the Foundation consider requiring relevant documentation from the funded institutions. By comparing applicant information to documents such as researcher résumés and employment confirmations, the Foundation could ensure that the application information is reliable.

11.33 The Peer Review Guidelines require the Peer Review Report to contain *"a formal recommendation"* for the budget amount that is *"consistent with* [the] *scientific recommendations"*. In our testing of a sample of research grants, we found a lack of detail within grant files and notes of scientific officers to document how committee members arrived at the recommended funding amount. The Foundation has recognized the need for better documentation at the peer review level. All scientific officers are now required to fill out a peer review summary form to document all pertinent information discussed at the peer review meeting.

11.34 When funds pass from one party to another, there should be an agreement between the two parties detailing the responsibilities of each. The Foundation presumes the application to be the formal agreement binding the applicant to the Foundation's Research Funding Program Guide if the grant is awarded. No additional reminders or agreements are signed. It is assumed the applicant agrees with, and will abide by, the Foundation's rules as a condition of making the application.

Recommendation 11.2

We recommend that, for all grants awarded by the Foundation, there be a formal agreement signed by the Foundation, the sponsor and the grantee, and that a copy be maintained by the Foundation. The agreement should set out the payment terms and the sponsors (institutions) should sign that they will comply with established funding requirements. In addition, the Foundation should adopt procedures to verify compliance.

11.35 This would ensure that all parties are aware of the conditions and will fulfill the responsibilities associated with the award.

Disbursements

11.36 An important component of financial management is a sound disbursements process. Such a process would include adequate internal controls and procedures to ensure grant funds are distributed to recipients efficiently, as approved, and as funds are required.

11.37 The Foundation's disbursement process is initiated upon Board approval of the grantee's application. All sponsoring institutions sign the application and thereby accept responsibility to administer funds in accordance with the Foundation's guidelines and objectives. Research grants are disbursed in annual installments. All funds are then sent to the sponsoring institution's finance department for disbursement to researchers.

11.38 When issuing grant payments, the Foundation's administrative assistant ensures that the amount is correct by vouching cheques to the Board-approved amounts. This verification procedure is an important control. However, insufficient detail is accompanying cheques for signing. We suggest that every grant cheque be supported by the formal budget recommendation and the approved motion for funding from the Board of Directors.

11.39 There are national ethics guidelines relative to use of humans, animals and laboratory biosafety. The grant applications include wording *"that any research carried out with funds from the Foundation will have the approval of a duly-constituted institutional research ethics committee"*. Our audit testing of a sample of research grants indicated the Foundation disbursed initial grant payments to sponsoring institutions without ensuring ethical approval was granted.

11.40 For the first two competitions, the Foundation placed the responsibility of ethical compliance with the researcher and the funded institution. By signing the application, applicants and administrators agreed that the research would be carried out with respect to ethical guidelines listed in the guide. Requirements have been modified. Future grant disbursements are to be released at the institutional level only after grantees fulfill the condition of ethical approval.

11.41 The Foundation relies on the sponsoring institutions' finance departments to disburse the grants to all recipients. To improve disbursement and cash management procedures, as noted in recommendation 11.2 above, we suggest that the Foundation set out the payment terms and have the institutions sign that they will comply. The Foundation should also adopt procedures to verify compliance.

11.42 Cheques greater than $50,000 require two signatures, but only one signature is required for lesser amounts. The requirement for two signatures on all cheques is a standard internal control.

Recommendation 11.3

We recommend that two signatures be required for all cheques.

Monitoring

11.43 An effective monitoring program would ensure grants are in compliance with Regulations and are used for the intended purpose. The Foundation's Objectives and Guidelines require annual and final performance reports on each project to be provided by the grantee. The Foundation provides reports annually on the amounts and types of research funded.

11.44 The Foundation relies entirely on the monitoring controls in place at the finance departments of the sponsoring institutions. There are no processes or controls in place at the Foundation level to provide assurance funded institutions are complying with the Objectives and Guidelines signed by the institution at the time of application. As noted in recommendation 11.2 above, we recommend improvements in controls over expenditures.

11.45 The Foundation requires annual and final project performance reports from grantees. Both reports are to contain a summary of research and financial activity during the funded term. The more detailed information is reviewed by the Executive Director from the perspective of achievement of the stated timelines and progress as outlined in the original application. Lack of achievement of the timelines or progress is addressed by direct contact with the research team. Further, the sponsoring institution is also notified and subsequent funds release is not to occur until the situation is rectified.

11.46 The progress reports submitted by the grantees are the only information received by the Foundation for review and assessment of the financial activities at the institutions. Annual financial reports from the institutions' finance departments would provide evidence as to whether funds are being distributed appropriately by the institutions.

11.47 The Foundation currently monitors both operating and personnel grants in basically the same way. The personnel progress reports are accompanied with a report from the supervisors indicating whether progress is acceptable.

Recommendation 11.4

We recommend that the Foundation improve its monitoring of grant recipients by requiring the sponsoring institutions' finance departments to submit annual financial reports of grant expenditures.

Investment Activities/Financial Management

11.48 The Health Research Foundation does not have a written investment policy. We believe that such a policy would assist the Board in fulfilling its stewardship responsibilities.

11.49 The Foundation currently uses the services of an investment advisor to reduce risk and maximize the rate of return. The Foundation's investing initiatives have generated a return similar to the Provincial borrowing rate.

Recommendation 11.5

We recommend that the Board approve an investment policy to provide guidance for staff and professional investment advisors when investing Foundation funds.

11.50 The Department of Health's 2001-02 budget request submitted to central government for the Foundation amounted to $5 million, based on the Foundation's submission to the Department. The government approved $2.5 million, equal to the prior year's approved budget. There were no directions to the Department or the Foundation on how to achieve this objective. The 2001-02 actual grant was $5 million, which was equal to the prior year. For two consecutive years (2000-01 and 2001-02), government included only $2.5 million for the grant to NSHRF in the Estimates but the actual grant was $5 million each year. We suggest a more realistic approach be taken with regard to the budgeting of this expenditure line item. The Foundation needs to be aware of its funding level well in advance of the competitions.

11.51 The Department of Health currently distributes annual funding to the Foundation in two equal installments; the second installment is very near fiscal year end. Funding is received before the Foundation is required to disburse the grant payments. The Foundation invests the funds received until required. The Department of Health should reconsider its timing of the payment of the annual grant to the Foundation to provide for better matching with the cash flow needs of the Foundation.

Recommendation 11.6

We recommend that the government appropriately budget the grant to the Nova Scotia Health Research Foundation based on operational plans, legislative and other commitments and historical experience, and that the grant be disbursed on a basis which matches the cash flow needs of the Foundation.

Financial Statements

11.52 We reviewed the Foundation's accounting policies for compliance with generally accepted accounting principles. Although the financial statements comply with generally accepted accounting principles for non-profit entities which use restricted fund accounting, we believe that disclosure could be enhanced through provision of more detail surrounding transactions in the restricted fund.

Currently the source of support for grants (the Province of Nova Scotia) is not shown and the grants issued are disclosed as single line item with no further detail. Provision of a Statement of Revenues and Expenditures for the Restricted Fund, as described in the CICA Handbook, would result in better financial statement disclosure.

Recommendation 11.7

We recommend that the Nova Scotia Health Research Foundation provide a Statement of Revenues and Expenditures for the Restricted Fund in its financial statements.

CONCLUDING REMARKS

11.53 The Foundation has progressed in all areas since it became operational in January 2000. We have made a number of recommendations to assist the Foundation to improve control over its operations. The Foundation should also continue to develop its strategic plan and submit a three-year plan to government as required by the Act. In addition, the Foundation should work towards better performance measurement and reporting both for individual projects and the Foundation itself.

Exhibit 11.1

A LOOK AHEAD

(Extracted from the 2000-01 Nova Scotia Health Research Foundation Annual Report)

Fiscal 2000 was a milestone year for the Nova Scotia Health Research Foundation. We laid the groundwork for the ongoing, effective operation of the organization, began building important, sustained relationships with our partners in the health research community, and fostered health research in the broadest sense. Now, we are ready to build on that foundation. Here's what we plan to do in fiscal 2001:

- Hold our second annual awards competition, in which more than $4 million will be awarded to health researchers in Nova Scotia. We will also have additional funds this year to support health research in the province. In fiscal 2000, we recorded a surplus from the annual provincial government grant that supports the Foundation. It was created - as projected - because we were not fully staffed, nor in full operation, until late in the fiscal year. In the upcoming year, it will be designated for health research applications.

- Conduct a week of workshops in the fall of 2001, including a workshop on grant-writing skills for prospective applicants. The key to getting grant money is being able to show funders that a project is worthy of financial support. At the NSHRF, we firmly believe our role goes beyond handing out awards to helping researchers compete successfully on a national and international scale.

- Launch a Capacity Building Program to work toward the creation of a vibrant and productive research environment in Nova Scotia through initiatives that support and encourage research, competency, interest and enhanced activity.

- Sponsor a targeted research workshop to further assist researchers and partners. This will be an annual event that will serve as a cornerstone of our Capacity Building Program.

- Continue to actively participate in and support a pan-Atlantic panel on health research, thereby, facilitating dialogue, cooperation and partnerships among health research bodies promoting and supporting research on a provincial basis in the four Atlantic Provinces.

- Prepare a response document to the report "A Critical Look at Health Research in Nova Scotia" and distribute it to our stakeholders and partners.

- Complete and issue the final copy of our report "Health - Related Research: Provincial Support," a cross-Canada profile outlining the nature and degree of provincial support available to health researchers across the country.

- Continue to develop the strengths we have built during our first full year of operation. We will keep on striking a balance between an increasing sense of focus and broad-based vision as we move into the years ahead.

Exhibit 11.2

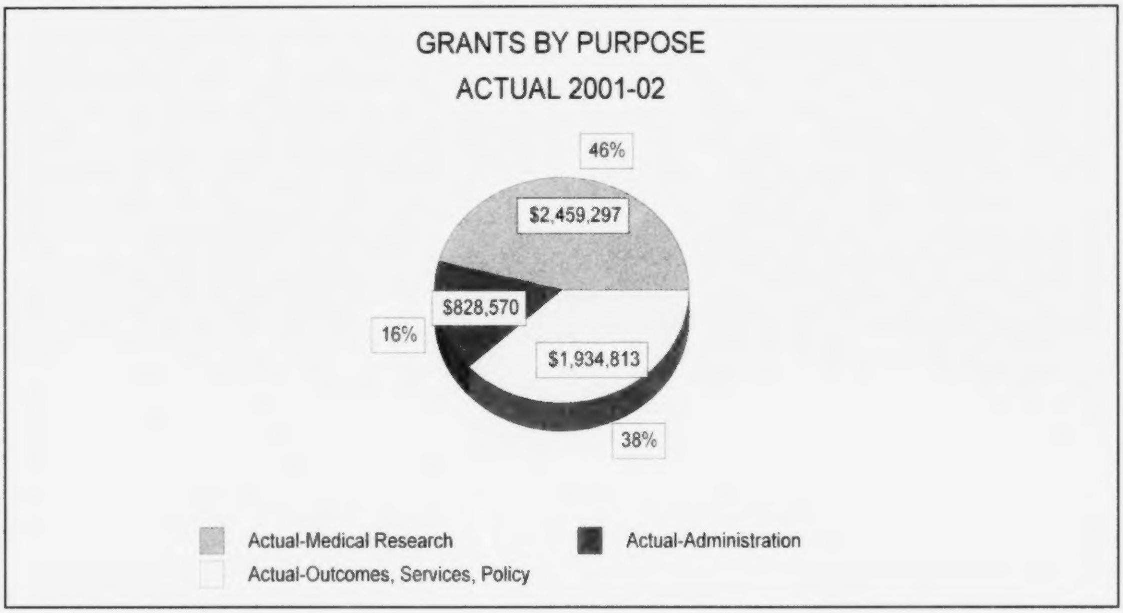
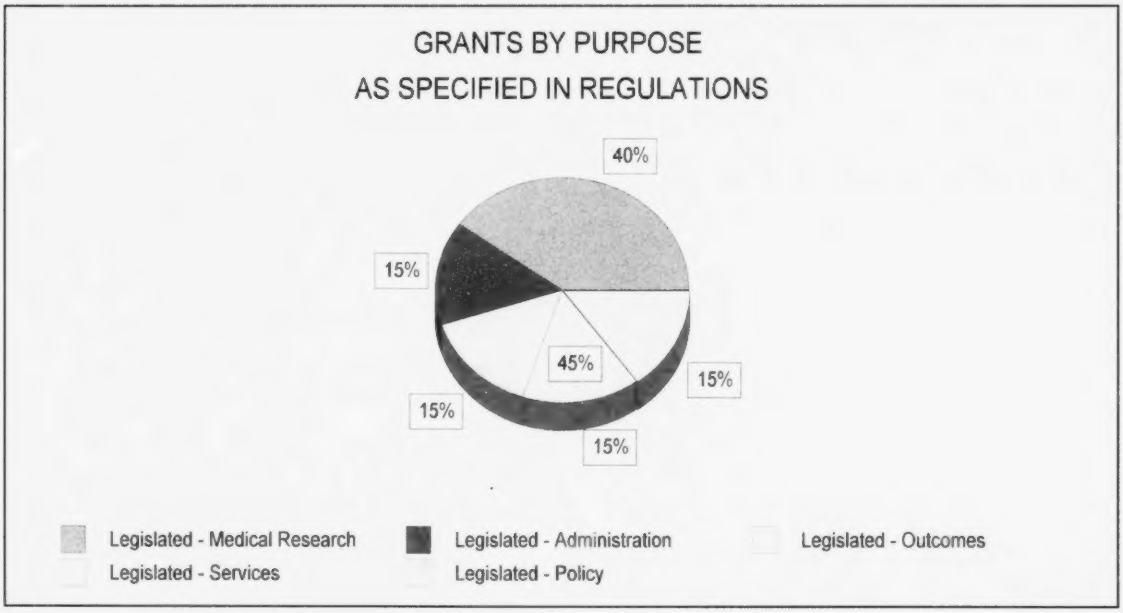


Exhibit 11.3



NOVA SCOTIA HEALTH RESEARCH FOUNDATION'S RESPONSE

The Nova Scotia Health Research Foundation Act was proclaimed in January 2000. The Nova Scotia Health Research Foundation (NSHRF) held its first grant competition in May 2000 under the direction of a temporary Board of Directors and staff. Permanent staff joined the NSHRF in August of 2000, with a permanent Board of Directors being appointed in October 2000. The first meeting with a permanent Board of Directors and staff was held in February 2001. Therefore the first full fiscal year of operation 2000-01 involved the transition from a temporary operational and governance structure to a permanent structure. At the time of your audit the NSHRF was only in its second full year of operation, and the first with a full staff complement and under the policy direction of a permanent Board. We highlight that the NSHRF is a very new organization and are pleased that this was recognized in your audit.

Overall, we concur with the results of your report as they pertain to issues within our jurisdiction. We view the recommendations as an opportunity to further develop and improve the systems and processes of the NSHRF as we continue to evolve and mature. We are very pleased with our progress to date, and have actually implemented most of the recommendations, within our jurisdiction, contained in this report.

We make the following specific comments with respect to the Principal findings:

- *We are pleased that our efforts towards strategic planning have been recognized. The NSHRF has just completed an extensive consultation process that will further inform our strategic planning efforts.*
- *The NSHRF has made significant progress in further improving our monitoring and reporting processes. We are pleased to have had the opportunity for this audit to inform our efforts in this regard.*
- *We are pleased that no concerns have been expressed regarding our investment practice. We would like to inform you that this practice has been formalized into policy.*

DEPARTMENT OF HEALTH'S RESPONSE

I would like to comment on two aspects of the Nova Scotia Health Research Foundation chapter of the 2002 Report of the Auditor General. My understanding is that the Chair of the Health Research Foundation will also be forwarding some comments.

Section 11.50 and the last bullet in Section 11.13 *speak to the way the Department budgets for our annual contribution to the Research Foundation. Our base budget includes an annual contribution of $2.5 Million and through the business planning process the Department annually requests an increase to $5.0 Million. Due to other budget pressures, the Department has a limited capability to commit to this level. However, due to the significant contribution the Foundation makes, the Department endeavors to allocate additional funds at our year-end while maintaining our approved forecasted position.*

As well, ***Section 11.51 and the seventh bullet of Section 11.13*** *comments on the timing of our contribution to the Foundation and the Foundation's distribution of grants. In keeping with the intent of an arm's length relationship the Department feels the timing of our contributions are appropriate and this methodology will be maintained.*

Thank you for the opportunity to comment on this chapter.

12.

HEALTH - AUDIT OF PERFORMANCE INDICATORS

BACKGROUND

12.1 In September 2000, the First Ministers agreed to

> "*provide comprehensive and regular public reporting by each government on the health programs and services they deliver, on health system performance and on progress towards the priorities set forth...; and collaborate on the development of a comprehensive framework using jointly agreed comparable indicators such that each government will begin reporting by September, 2002.*" (First Ministers' Meeting Communiqué on Health, September 11, 2000)

12.2 In addition, they agreed to "*...allow each government to determine appropriate third party verification for itself to certify and analyse this information for the benefit of Canadians.*"

12.3 On June 26, 2001 the Deputy Minister of Health requested the Auditor General to provide the required third party verification for the report, and we accepted the engagement. Subsequently, we entered into discussions with the Department of Health to better define the role of the Auditor General and an agreement governing the terms of the engagement was signed in April 2002.

12.4 Each of the other jurisdictions (Canada, provinces and territories) requested the legislative auditor to provide verification of the respective report. It is noteworthy that Nova Scotia was the first jurisdiction to engage its legislative auditor to provide the required verification. This engagement was the first time that we were asked to audit a non-financial performance report and, for that reason, this was a significant audit for our Office.

12.5 Over the course of the two-year period between the First Ministers' Meeting and the tabling of the final report, the Department of Health worked with its counterparts in other jurisdictions through the Performance Indicators Reporting Committee (PIRC), a sub-committee of the Conference of Deputy Ministers of Health. PIRC defined a framework of 67 indicators in 14 areas which were approved by the Conference of Deputy Ministers. Meanwhile, the legislative auditors worked together through a sub-committee of the Canadian Council of Legislative Auditors (CCOLA) to develop common audit approaches and solutions to common audit issues.

12.6 Although the legislative auditors worked together to establish common audit approaches, some jurisdictions did not engage their auditors to provide audit opinions on the report but, rather, asked their legislative auditors to perform a more limited engagement - *specified auditing procedures* - where the procedures performed are not sufficient to constitute an audit. In all, nine legislative auditors performed audits, while five performed specified auditing procedures. We are pleased to have been asked by the Department of Health to perform an audit of the indicators as we believe this is the advisable approach because it gives assurance to users of the indicators regarding the fairness of the indicators in accordance with the definitions approved by the Conference of Deputy Ministers.

12.7 Many of the 67 indicators originated from national databases at Statistics Canada, the Canadian Institute for Health Information (CIHI) and Health Canada. To avoid duplication of audit effort, the legislative auditors each relied on a single audit of these national databases. Indicators originating from Statistics Canada and Health Canada were audited by the Office of the Auditor General of Canada. Indicators originating from CIHI were audited by a team of auditors from three jurisdictions led by the Office of the Auditor General of British Columbia.

12.8 On September 30, 2002 each jurisdiction issued its public report on the 67 indicators. Nova Scotia's *Reporting to Nova Scotians on Comparable Health and Health System Indicators - Technical Report* and its accompanying *Highlights and Discussion Report* and *Executive Summary* are available on the internet at http://www.gov.ns.ca/health/pirc/. Our Auditor's Report is located on page 5 of the *Technical Report.*

12.9 We understand that the current plan is for these reports to be produced bi-annually by all jurisdictions, and that the next reports will be issued late in 2004.

RESULTS IN BRIEF

12.10 The following are the principal observations from our audit.

- We were able to give an unqualified audit opinion on all but 18 of the indicators reported by the Department of Health. Of the 18 indicators on which we could not provide an opinion, seven originated from the Canadian Institute for Health Information, two originated from Statistics Canada, eight originated from Health Canada and one originated from a Provincial system (Home Care Admissions). For seven of the eight Health Canada indicators, the Department of Health decided to draw the data from databases at the Nova Scotia Department of Health rather than Health Canada. We audited these seven indicators and found them to be accurate, although we could not conclude on the adequacy of disclosure of any data limitations for these indicators.

- This is not the first time that Nova Scotia has reported health system data to the public. However, it is the first cooperative effort between Federal, provincial and territorial governments to report to their own citizens on health system performance using the same set of comparable indicators. This new process will improve Nova Scotia's ability to gather useful health care data and report health system performance to its residents along with comparisons to other provinces and territories. We are encouraged by the work undertaken by the Nova Scotia Department of Health in the preparation of *Reporting to Nova Scotians on Comparable Health and Health System Indicators.*

AUDIT SCOPE

12.11 The objectives of this audit were to assess whether:

- the Conference of Deputy Ministers' (CDM) defined performance indicators, reported based on Provincial data, adequately reflect the facts to an appropriate level of accuracy;

- the performance indicators are defined, and their significance and limitations are explained;

- the report states and properly describes departures from what was approved by the Conference of Deputy Ministers, and explains plans for the future resolution of any non-compliance issues; and

- the performance indicators comply with the definitions, technical specifications and standards of presentation approved by the Conference of Deputy Ministers.

12.12 The criteria used in our audit are shown in Appendix 1, page 205.

12.13 Our audit was limited to the indicators reported in *Reporting to Nova Scotians on Comparable Health and Health System Indicators - Technical Report* dated September 30, 2002. We did not audit the *Highlights and Discussion Report* or the *Executive Summary*.

PRINCIPAL FINDINGS

12.14 The full text of our Auditor's Report is included as Exhibit 12.1 on page 202.

12.15 Subsequent to the Department of Health's release of its Report, we met with those responsible for preparation of the Report to discuss lessons learned from this first audit, and to make suggestions for improvement to the preparation process for future reports. For example, the Department of Health was not required to report certain indicators such as wait times for specialist visits, diagnostic tests and surgery in this iteration of the Report. These will be required for future Reports and we encouraged the Department of Health to ensure that the systems developed to track these indicators include appropriate documentation and an audit trail to facilitate future audits.

12.16 The Department of Health has committed to work with its partners and our Office to improve systems and controls to ensure that we can provide an unqualified opinion on all indicators in future audits.

CONCLUDING REMARKS

12.17 In previous Reports of the Auditor General, we have commented on the need for improved health information systems. The Department of Health is currently investing an estimated $57 million in a new Hospital Information System (see page 156 of this Report) to satisfy the need for timely and relevant clinical and management information for decision-making.

12.18 New systems help to meet the need for quality information, but we also believe that the user needs assurance on the quality of the data generated by such systems. Audits provide the needed assurance. The role of audit is well understood in the provision of financial information, but is just beginning to be recognized in the provision of non-financial information.

12.19 This was our first audit of health indicators and we were very pleased with the quality of the Report produced by the Department of Health and the cooperation of Departmental staff. We look forward to working with the Department of Health on the audit of the next health indicators report. We encourage government to look at the 2002 health indicators report as an example of the added assurance that an audit can provide on non-financial information in all sectors.

Exhibit 12.1

AUDITOR'S REPORT

To the Minister of Health and the Members of the Legislative Assembly of Nova Scotia

I have audited the health indicators presented in the Nova Scotia Department of Health's *Reporting to Nova Scotians on Comparable Health and Health System Indicators: Technical Report,* dated September 30, 2002. The Conference of Deputy Ministers defined the specific indicators to be regularly reported to Canadians. Reporting health indicators is the responsibility of the Department of Health. My responsibility is to express an opinion on the health indicators based on my audit. However, my responsibility does not extend to assessing the performance achieved or the relevance of the health indicators.

Except as explained, in the following four paragraphs, I conducted my audit in accordance with the standards for assurance engagements of the Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the health indicators are free of significant misstatement. To this end, I audited these health indicators to determine whether they meet the criteria set out in Appendix 1. My audit included examining, on a test basis, evidence supporting the health indicators and disclosures. My audit also included assessing significant judgments made by management of the Department of Health. My audit was limited to information relating to the most recent year in which each indicator was reported. Since my audit was limited to those indicators defined by the Conference of Deputy Ministers, two of the indicators included in the Department of Health's Report were not included in my audit:

- Radiation Therapy Wait Times (Department of Health has noted a significant departure from the requirements established by the Conference of Deputy Ministers)
- Ground Ambulance Response Times for Emergency Calls (not required by the Conference of Deputy Ministers)

Data used for seven indicators were drawn from the relevant Canadian Institute for Health Information (CIHI) databases:

- 30-day Acute Myocardial Infarction In Hospital Mortality Rate
- 30-day Stroke In Hospital Mortality Rate
- Total Knee Replacement Rate
- Total Hip Replacement Rate
- Risk Adjusted Acute Myocardial Infarction Re-Admission Rate
- Risk Adjusted Pneumonia Re-Admission Rate; and
- Age Standardized Rate of Hospitalization for Ambulatory Care Sensitive Conditions

At this time, I am unable to provide an opinion on the accuracy of the data and the adequacy of disclosure on limitations of the data drawn from the Discharge Abstract/Hospital Morbidity Database of the Canadian Institute for Health Information for the indicators named above. My inability to provide an opinion is due to a lack of documentation of the CIHI quality assurance process, and because CIHI's three-year abstraction study, which will provide information on the quality of input data, will not be completed for another two years.

Data for two indicators were drawn from Statistics Canada:

- Five year Age Standardized 365-day Acute Myocardial Infarction Survival Rate
- Five year Age Standardized 180-day Stroke Survival Rate

I was unable to conclude on the accuracy of these two indicators because Statistics Canada uses as one of its data sources the Discharge Abstract Database (DAD) maintained by CIHI, and Statistics Canada has not made a formal determination of the quality of the data it receives from this database.

Health Canada maintains national databases for eight disease surveillance indicators:

- Invasive Meningococcal Disease Incidence Rate
- Measles Incidence Rate
- Haemophilus Influenza B (Invasive) (HIB) Incidence Rate
- Prevalence of Diabetes
- Tuberculosis Incidence Rate
- Reported HIV Diagnoses
- Verotoxogenic E Coli Incidence Rate; and
- Chlamydia Incidence Rate

Participation in these databases is voluntary, and there is a lack of formal federal/provincial/territorial agreements on data sharing, data standards and data definitions. The quality assurance processes for these databases are inadequate to ensure the accuracy of the data, and Health Canada states, in the Federal health indicators report, that improvements are required in data quality. The Nova Scotia Department of Health decided to draw the data for seven of these indicators (all except Prevalence of Diabetes) from databases at the Nova Scotia Department of Health rather than Health Canada. I audited the seven indicators drawn from Nova Scotia databases (all except Prevalence of Diabetes) and found them to be accurate. I am unable to conclude on the adequacy of disclosure for these eight indicators.

The Home Care Admissions indicator data were drawn from Home Care Nova Scotia records. As noted in the report by the Department of Health, the source data for this indicator could not be verified and may include multiple admissions for the same client. All records required to audit the data had not been retained by the Department of Health. Therefore, I am unable to form an opinion on the accuracy of the data or on the adequacy of disclosure for this indicator.

In my opinion, except for the 18 indicators mentioned in the preceding four paragraphs, the remaining indicators included in the Department of Health's Report and subject to my audit are, in all significant respects, presented fairly in accordance with the criteria in Appendix 1 and the definitions approved by the Conference of Deputy Ministers. Furthermore, the Department of Health has noted four indicators where there is a departure from the requirements established by the Conference of Deputy Ministers. I have determined that the circumstances relating to those departures were properly described by the Department of Health.

The Department of Health indicated that three of these indicators could not be presented because the source data is not presently available, and that an additional indicator (Cardiac Wait Times) departs in some respects from the definition established by the Conference of Deputy Ministers because of the way in which the data were compiled by the Maritime Heart Centre.

The Nova Scotia report includes comparative health indicators relating to other governments (provincial, territorial, and federal). Health indicators for some provinces and territories and for Canadian government programs have been audited by legislative auditors while, for other provinces, legislative auditors have been engaged to perform specified auditing procedures. Appendix 2 includes an explanation of the difference between those two types of engagements, and details regarding the nature of the engagement performed in each of the jurisdictions. The auditors' findings and observations resulting from engagements in other Canadian jurisdictions are included in the respective governments' reports and are neither reproduced in the Nova Scotia Department of Health report nor audited by my Office.

This is not the first time that Nova Scotia has reported health system data to the public. However, it is the first cooperative effort between federal, provincial and territorial governments to report to their own citizens on health system performance using the same set of comparable indicators. This new process will improve Nova Scotia's ability to gather useful health care data and report health system performance to its residents along with comparisons to other provinces and territories. I am encouraged by the work undertaken by the Nova Scotia Department of Health in the preparation of this report.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
September 23, 2002

Appendix 1

AUDIT CRITERIA

Complete

The health indicators reported comply with the definitions, technical specifications and standards of presentation approved by the Conference of Deputy Ministers.

Accurate

The PIRC-defined health indicators reported based on Nova Scotia data adequately reflect the facts, to an appropriate level of accuracy.

Adequate disclosure

The health indicators are defined and their significance and limitations are explained. The report states and properly describes departures from what was approved by the Conference of Deputy Ministers and explains plans for the future resolution of any non-compliance issues.

Appendix 2

VERIFICATION OF COMPARATIVE INFORMATION FROM OTHER JURISDICTIONS

The governments of Canada, the Provinces and the Territories have adopted different approaches to meet the September 2000 First Ministers Meeting Communiqué on Health requirement with respect to "third party verification" for their health reports. Some have engaged their legislative auditor to provide audit assurance on their health reports and others have asked for specified auditing procedures to be applied. The paragraphs below outline the major differences between an audit assurance engagement and a specified auditing procedures engagement. For a complete comparison, please refer to CICA Handbook Section 5025 for audit assurance engagements and Section 9100 for specified auditing procedures engagements. I believe, for reasons described in the following paragraphs, that an audit under CICA Handbook Section 5025 is the advisable approach.

In an attest audit engagement, the auditor's responsibility is to offer assurance to users, in the form of an audit opinion, on a report prepared by management. The auditor determines the nature, extent, timing, appropriateness and sufficiency of audit procedures, which, in the auditor's judgment, are necessary to provide assurance concerning the subject matter, or the health care report in the present context.

In a specified auditing procedures engagement, the auditor's responsibility is to report the results of applying auditing procedures specified by management. As the extent of specified auditing procedures may vary from engagement to engagement, such engagements are difficult to compare. And since the extent of the procedures performed are not sufficient to constitute an audit, the reports do not provide an audit opinion. Reports state those procedures actually applied and only the factual results of those procedures, leaving the reader to determine the fairness of the information.

The following is a list of jurisdictions that have engaged their legislative auditor to provide audit assurance on their heath reports and those that have asked for specified auditing procedures to be applied.

Audit Opinion CICA 5025	**Specified Auditing Procedures CICA 9100**
Nova Scotia	Alberta
British Columbia	Ontario
Saskatchewan	New Brunswick
Manitoba	Prince Edward Island
Quebec	Newfoundland and Labrador
Canada	
Yukon	
Northwest Territories	
Nunavut	

13.

SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS - FUEL AND TOBACCO TAX

BACKGROUND

13.1 The Department of Service Nova Scotia and Municipal Relations (SNSMR) is responsible for administering the Revenue Act. Under the Act, the Department administers taxes on tobacco products, gasoline and diesel oil (fuel), and the private purchase of designated tangible personal property (e.g., motor vehicles, boats and aircraft). Total revenue received under these three taxes for the year ended March 31, 2002 was $327.4 million (see Exhibit 13.2 on page 217).

13.2 Tobacco wholesalers (including manufacturers) are designated under the Act as collectors and remitters of tobacco tax. These taxes are paid to the Province by the wholesalers based on sales of tobacco products to retailers. The taxes are factored into the price of tobacco products and are ultimately passed on to the consumer. In 2001-02, tobacco tax revenue totaled $105.7 million, of which $92.2 million (87%) was remitted by the six largest wholesalers.

13.3 In accordance with Federal legislation, sales of tobacco on native reserves to status Indians are exempt from tax. The government requires special marking of packaging to distinguish tax-free from taxable tobacco.

13.4 Similarly, fuel oil companies are designated under the Act as collectors and remitters of fuel taxes. These taxes are paid by the companies based on sales of taxable gasoline or diesel oil products to retailers and consumers. The taxes are factored into the price of fuel and are ultimately passed on to the consumer. In 2001-02, gasoline and diesel fuel tax totaled $207.9 million, $198.4 million (96%) of which was remitted by the six largest fuel oil companies.

13.5 Gasoline and diesel fuel used in certain circumstances is not taxed. Tax-exempt fuel can be used to operate qualified machinery in designated activities such as lumbering, farming, fishing and aquaculture. Tax-exempt fuel can also be used by the Department of Transportation and Public Works, fire departments, municipal governments, as well as in certain marine applications. To distinguish it from taxable fuel, tax-exempt fuel is dyed (marked). Companies or individuals must obtain a consumer exemption permit to be allowed to purchase marked fuel.

13.6 The government's partnership with the Federal government in the collection of Harmonized Sales Taxes (HST) is not addressed by the Revenue Act. Except for HST owing on vehicles purchased outside of a province participating in the harmonized sales tax program, Canada Customs and Revenue Agency administers HST and remits Nova Scotia's share to the Province. Service Nova Scotia and Municipal Relations and the Nova Scotia Department of Finance liaise with the Federal government on this matter.

RESULTS IN BRIEF

13.7 The following are our principal observations from this audit.

- The Department has a broad mandate under the Revenue Act and Regulations. We did not observe any unmet legislative requirements.

- Control over the processing of tax payments needs strengthening. We observed deficiencies relating to segregation of duties, recording and security of money received, and reconciliations of deposits to accounting records.
- We noted tax returns with incomplete or missing supporting schedules and insufficient details on the calculation of taxes owing, and returns regularly being received after due dates.
- As a result of a 1991 Provincial Court decision, gasoline purchased on a reserve by a status Indian is exempt from Provincial taxes. The government established a process to refund the fuel tax previously paid by band members who purchased fuel from on-reserve gasoline retailers. In July 2002 government reached a tentative agreement with the Eskasoni band to refund band members $16 million for fuel taxes paid (including interest). The government is negotiating agreements with the remaining 12 bands. The total cost of this rebate program is estimated to be $19.6 million.
- There are serious deficiencies in the planning, monitoring and documentation of tax audits and inspections, and insufficient auditing of oil company head offices, gasoline retailers and tobacco wholesalers.
- There are reasonable systems and good documentation to support measures taken to pursue infractions of law discovered by the Department.

AUDIT SCOPE

13.8 In November 2002 we completed a broad scope audit at Service Nova Scotia and Municipal Relations. It was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included all tests and other procedures we considered necessary in the circumstances.

13.9 The objective of this assignment was to assess the Department's processing, monitoring, inspection and auditing activities as they relate to the requirements of legislation, regulations and/or policy for tobacco and gasoline and diesel oil taxes. Audit criteria were developed to assist in our assessment of the systems and practices of the Department. The audit criteria were discussed with and accepted as appropriate by senior management of the Department, and are outlined in Exhibit 13.1.

PRINCIPAL FINDINGS

Compliance with Legislation

13.10 The Department has a broad mandate under the Revenue Act and Regulations. Staff and clients of the Department are made aware of changes to the Act and Regulations through distribution of the Act, Regulations, tax bulletins and other communications. This information is also available on the Department's website. Tax bulletins provide the Department's interpretation of the Act and Regulations and announce significant changes.

13.11 We did not observe any unmet legislative requirements.

Processing Tax Returns

13.12 Tobacco wholesalers and fuel oil companies are required to submit monthly returns and remit all taxes collected. Department staff process payments and record them in the Department's online licensing and collection system. A review is performed on returns to analyse and assess the reasonableness of information reported.

13.13 We reviewed the system used to process tax payments received. In our opinion, the system of internal control to process payments needs strengthening. We observed deficiencies relating to segregation of duties, recording and security of money received, and reconciliations of deposits to accounting records.

> ***Recommendation 13.1***
>
> *We recommend the Department implement an appropriate system of internal control over cash receipts.*

13.14 We also noted that the processing of tax payments involves many manual procedures. We encourage the Department to determine the feasibility of computerizing the cash receipts system and integrating it with its licensing and collection system.

13.15 We examined how monthly returns received from tobacco wholesalers and fuel oil companies are processed and checked. We found inadequate documentation of the reviews performed on returns. For example, there are no standard procedures to be performed and minimal records of the actual procedures performed. Review findings and adjustments and related disposition are poorly documented, if at all. There is minimal reconciliation or verification of sales and product transfers between organizations reported in the returns. Also, there is limited, if any, supervision of the work performed by staff conducting the reviews.

> ***Recommendation 13.2***
>
> *We recommend that the examination of monthly returns be appropriately documented and reviewed, and standards be developed to specify the frequency and nature of the procedures to be performed.*

13.16 We examined a sample of monthly tobacco tax returns and fuel tax returns. We noted returns with incomplete or missing supporting schedules and details on the calculation of taxes owing, and returns regularly being received after due dates. We also observed inappropriate delays in recording and depositing tax payments.

> ***Recommendation 13.3***
>
> *We recommend that the Department ensure returns and tax payments are processed on a timely basis and that all information required on a return is received.*

13.17 The Department issues permits to authorize the use of tax-exempt fuel in certain circumstances (see paragraph 13.5). Fuel oil companies submit monthly statements of tax-exempt sales which are examined during the review of monthly tax returns. Certain fish processing plants have been issued a restricted retailer license to sell tax-exempt fuel, and they too submit a monthly statement of tax-exempt sales. However, the statements received from restricted gasoline retailers are reviewed and verified only as time permits.

Recommendation 13.4

We recommend tax-exempt sales statements be reviewed monthly, at least on a sample basis. This process should include checking to see that tax-exempt fuel is only being sold to companies and individuals who have consumer exemption permits.

13.18 Currently, the Department is unable to track and report on tax-exempt sales by individual permit holder. This would be useful in highlighting problems warranting closer attention (e.g., a formal inspection). Current information on the total dollar value of fuel tax exemptions is not available either. The Department has begun to compile a database to record this information, but this data is only being entered as time permits.

13.19 A report on taxes levied under the Revenue Act is prepared monthly to monitor actual and forecasted tax revenue. The report is reviewed by senior staff of SNSMR and the Department of Finance. It includes detailed financial and statistical information. Revenue forecasts are based upon various economic models. Commentary is provided on variances between taxes received and forecasted when the Department is aware of the reasons for the variances.

Sales of Tobacco and Fuel on Native Reserves

13.20 Under Section 87 of the Federal Indian Act, status Indians have the right to purchase tax-exempt tobacco and fuel products for their own use.

13.21 The thirteen First Nation bands in Nova Scotia are allowed a monthly quota of three cartons of tax-exempt cigarettes, identified by peach-coloured tear-tape, and 200 grams of tobacco in any other form for each band member, regardless of age. Only tobacco retailers designated by a band council and operating on a reserve are allowed to sell tax-exempt tobacco products. Tax-exempt tobacco products can only be sold to reserve residents possessing a status Indian card. The courts have determined that this process is a valid means of providing the exemption stipulated under Section 87 of the Indian Act. The annual dollar value of this exemption, as estimated in July 2002, is $12 million.

13.22 We noted that 19 retail outlets selling tobacco products on two reserves have not been designated by their respective band councils. Management indicated that the Department is actively working with the band councils to establish these designations.

13.23 Band councils designate the tobacco wholesalers from which on-reserve retailers must purchase tax-exempt tobacco products. Tobacco wholesalers so designated are required to submit monthly sales reports to the Department. Staff review monthly sales reports for reasonableness. Reports are generated to help monitor the sale of tax-exempt tobacco products on each reserve. We believe there could be more formal reporting of this information to senior management of the Department.

13.24 As a result of a 1991 Provincial Court decision, gasoline purchased on a reserve by a status Indian is exempt from Provincial taxes. The government is currently collecting fuel tax on such purchases, but is developing a system that will allow band members to purchase tax-exempt gasoline at the point-of-sale on reserves. This system is scheduled to be operational by December 2002. Each band member who possesses a valid Nova Scotia driver's license will be able to purchase up to 400 litres of tax-exempt fuel each month. The total cost of this exemption is estimated to be $400,000 to $500,000 per year.

13.25 The Court decision is to be applied retroactively. The government established an interdepartmental committee to develop a process to refund the fuel tax previously paid by band members who purchased fuel from on-reserve gasoline retailers. In July 2002 government reached a tentative agreement with the Eskasoni band to refund band members $16 million for fuel taxes paid (including interest). The government is negotiating agreements with the remaining 12 bands. The total cost of this rebate program is estimated to be $19.6 million.

Inspections and Audits

13.26 The Department is authorized by legislation to ensure compliance with the Revenue Act through inspections and audits of tobacco manufacturers, wholesalers and retailers, oil refineries, fuel oil companies, gasoline retailers, users of tax-exempt fuel, as well as interprovincial carriers registered under the International Fuel Tax Agreement (IFTA).

13.27 The Department does not have current policy and procedure manuals for performing audits and inspections (except for those pertaining to IFTA), processing cash receipts, or for guiding tax collection and enforcement practices. Some of the policies and procedures currently being followed are from the sales tax and fuel and diesel oil tax audit manuals of the former Provincial Sales Tax Commission. These manuals have not been updated for several years.

13.28 We also concluded that there are serious deficiencies in the planning and monitoring of inspection and audit assignments. There is no master list of vendors indicating which have been audited or inspected. There is no formal risk-based assessment process to determine audit and inspection frequencies. There is little information available on which projects have been assigned to which staff members, and new permits issued and permits cancelled are not factored into the assignment of projects on a timely basis. We observed instances where establishments have been inspected more than once in a short period of time with no stated rationale, while other establishments go years between visits. We observed that sometimes two officers will perform inspections of small establishments together, and we received no reasonable explanation for this apparent duplication considering the large number of inspections to be done.

13.29 There is no review of past audit or inspection history prior to performing an assignment. There are no due dates set for the completion of assignments and minimal progress reporting on assignments in process. We noted numerous instances of inspection reports not being submitted until long after an assignment commenced. Management was generally unaware of the inordinate length of time taken to finalize some inspections.

13.30 We also observed that time reporting by auditors and compliance officers is inconsistent and lacking in detail. Such reporting is not a formal requirement of the Department and appears to be a voluntary continuation of practices employed by the former Provincial Tax Commission. As a result, management do not regularly review time reports and are often not aware of the exact nature of the work being done by inspection and audit staff. There are no standards on the amount of work (e.g., number of inspections or audits) that would be reasonable for a set period of time. Such standards would help management monitor the productivity of staff.

13.31 When an inspection or audit report has been completed, it receives only a cursory review by management. In our view, the review of inspection and audit reports needs to be more stringent to ensure reports are complete and contain sufficient information to support the conclusions derived. Also, there is no system to ensure that a follow-up inspection occurs when significant irregularities are noted or an officer recommends one for another reason.

Recommendation 13.5

We recommend that the Department implement a formal, comprehensive system for audit/inspection planning, management and quality control.

13.32 Due to lack of technical training or expertise within the audit and inspection staff, oil company head offices and gasoline retailers have not been audited or inspected in several years. Also, only one small tobacco wholesaler has been audited within the last year. Staff efforts have been directed primarily to ensuring that tax revenue owing to the Province from recent tobacco tax increases has been accurately remitted. It is expected that audits of tobacco wholesalers will recommence when the focus on collecting tax-increase revenue is completed.

Recommendation 13.6

We recommend that audits of oil company head offices, gasoline retailers and tobacco wholesalers be performed. Staff should be provided with the training necessary to audit oil company head offices and gasoline retailers, and/or the expertise should be obtained from outside the Department.

13.33 We believe there are benefits to be achieved from a greater use of technology by audit and inspection field staff. Although staff have notebook computers, while out of the office they cannot access information on the establishments they plan to visit, nor can they record the results of their assignments in the systems.

Recommendation 13.7

We recommend that information system improvements be implemented to facilitate a more effective and efficient inspection and audit process.

13.34 We also noted a significant change in the amount of resources dedicated to inspections and audits over the last several years. In 1993, there were 39 individuals dedicated to inspections and audits relating to tobacco and fuel tax. Staff numbers were subsequently reduced when tax and other changes reduced the smuggling of tobacco products and the enforcement activities required to control the problem. At the time of our audit there were 20 individuals, some of whom were on extended sick leave or seconded to another area of the Department. It was unclear to us whether the number of staff performing audits and inspections is adequate and, if not, whether staff available were focusing on the highest priority work.

Recommendation 13.8

We recommend a comprehensive review of the staffing, organization and work responsibilities of the Department as they relate to tobacco and fuel taxes, concurrent with the above-recommended information system improvements, to ensure all tax-related responsibilities are fulfilled in the most efficient and effective manner.

13.35 We examined a sample of inspection reports pertaining to tobacco retailers, gasoline retailers and users of tax-exempt fuel. We noted problems relating to ratios calculated by inspectors to indicate whether there may be problems which need further investigation. We found errors in the calculation of ratios and ratios outside of acceptable ranges without comment on action taken. In some situations, there were differences between gasoline retailers' records and compliance officer calculations of the amount of gasoline sold, but no comments recorded on the acceptability of the differences. We also observed that compliance officers regularly do not document a conclusion on the result of their work (i.e., whether there was sufficient compliance with legislation and regulations).

Recommendation 13.9

We recommend that better documentation be prepared to support the procedures performed and conclusions drawn from audits and inspections.

13.36 The Province is a participant under the International Fuel Tax Agreement. The agreement applies to all Canadian provinces and territories and certain American states, and governs the uniform collection and distribution of fuel taxes paid by interprovincial and interstate carriers to the members of the agreement. There are 62 jurisdictions participating in the agreement. Each carrier is required to pay a certain amount of fuel tax in each jurisdiction, based on the distance traveled in each jurisdiction. Registered carriers must file a quarterly fuel tax return which covers the distance traveled in all IFTA member provinces, territories or states.

13.37 The Department is responsible for administering IFTA in Nova Scotia. The Department collects or refunds net fuel tax from/to Nova Scotia registered carriers on behalf of all members in accordance with the agreement. Under the terms of the agreement, the Province is required to audit a minimum of 3% of registered carriers in Nova Scotia each year to ensure the proper amount of fuel tax has been paid by carriers. The agreement also subjects the Province to an audit every four years by the governing body of IFTA to ensure the Province is complying with the agreement. The most recent audit was completed in January 2002 and covered the period January 1, 1997 to December 31, 2000. The audit report concluded that the Province was in compliance with all terms of the agreement.

Collections and Enforcement

13.38 Monthly tax returns and payments are to be sent to the Department by the 20th of the following month. After a grace period, collection staff will telephone a delinquent vendor and request the return and payment. A maximum of three requests are made before additional action is taken. This may involve revoking a permit, cancelling an agreement or initiating legal action.

13.39 When an audit has been conducted of a vendor responsible for collecting fuel or tobacco taxes, it may result in an assessment of additional taxes and a formal notice to the vendor. We found that some unpaid assessments were not being followed up due to a deficiency in the computer system. A manual system is being used while the Department tries to fix the problem, but staff are unsure whether all overdue assessments are being identified. We also noted that certain assessments are not recorded in the system at all, and that collection is handled manually for these assessments. We encouraged the Department to address these information system deficiencies as soon as possible to ensure all assessments can be recorded in the system and all overdue accounts followed up.

13.40 A penalty of 5% of the outstanding amount, plus interest, is automatically applied to the vendor's account once delinquent. When an application is made for a licence/permit renewal, outstanding balances have to be paid before a renewal is granted. In addition, the Department can take legal action to recoup outstanding amounts. Various avenues of appeal exist if a vendor believes it is being treated unfairly.

13.41 When it is suspected that tax-exempt (marked) fuel is being used contrary to the Act, a compliance officer will take a sample of the fuel and have it analysed. The analysis will determine if the fuel contains dye used to identify the fuel as tax-exempt. Additional information will be collected to assist in deciding the nature of enforcement action to take. Enforcement action can vary from a disciplinary letter to legal action. In certain circumstances it may be necessary to issue an assessment to recover taxes avoided by using tax-exempt fuel. For the year ending March 31, 2002, there were 15 (2001 - 25) instances where either disciplinary or legal action occurred relating to gasoline and diesel oil taxes.

13.42 If legal action is successful, a fine is imposed and authorization to use tax-exempt fuel is suspended. If applicable, Registry of Motor Vehicle permits are suspended (30 days for a first offense) and/or a suspension from handling tax-exempt fuel for 60 days is imposed. Notification of the length of suspension is sent to both the offender and the fuel company which supplied the marked fuel. Department staff monitor the tax-exempt sales statements received from fuel companies to ensure no tax-exempt sales are made to the offender during the suspension period.

13.43 If a tobacco product vendor is convicted of illegal actions (e.g. selling to an unlicensed retail establishment, possession of illegal products), a fine is imposed and the vendor's permit to sell tobacco products may be suspended. In less severe cases, a disciplinary letter may be sent. If a permit is suspended, a letter is sent to the offender outlining the reason for the suspension and explaining the right to appeal. Suspension periods can range from one week to five years, depending on the number of times an offense has occurred and the quantity involved. Companies which sell tobacco products to the vendor are notified and asked to not sell to them during the suspension period. Compliance officers are required to ensure that the terms of suspension are followed. For the year ending March 31, 2002, there were 11 (2001 - 4) instances where either disciplinary or legal action occurred relating to tobacco taxes.

13.44 We examined a sample of situations where enforcement action was taken. We found that files were complete and well documented. However, we noted that there is no system to ensure suspensions of permits and licences are recorded in Department computer systems, and we suggested that notices of suspensions be routinely submitted for entering into the systems.

13.45 The Revenue Act stipulates specific actions to be taken when a vendor is suspended or convicted. We reviewed the enforcement practices that the Department uses when there is a violation of the Act and found they are consistent with the Act.

Licensing

13.46 Under the Revenue Act, operators of certain businesses are subject to Provincial licensing requirements. Licences, permits and agreements are used extensively to regulate the sale of taxable and tax-exempt tobacco and fuel in the Province. To ensure fuel oil companies only sell fuel to registered gasoline retailers, they are provided with a listing of bulk plant and gasoline retailer licences issued. Fuel oil companies are provided with a listing of consumer exemption permits that have been issued. To ensure tobacco wholesalers only sell tobacco products to registered tobacco retailers, a monthly listing of tobacco retailer licences issued is provided to wholesalers.

13.47 The Department administers the licensing process, which includes collecting any required fees, reviewing and verifying application information, and issuing the permits and licences (see Exhibit 13.3 on page 218). We reviewed the systems used by the Department to ensure it receives complete and accurate information to process and issue permits and licences.

13.48 Standard application forms are completed by applicants. Verification of the applications includes ensuring all required information is provided, companies are registered with the Registry of Joint Stocks and/or Canada Customs and Revenue Agency, and no outstanding amounts are payable to the Department. For some permits, staff must ensure security bonds in the correct amounts have been received, the correct application fees have been paid, and agreements between the applicant and the Department have been signed.

13.49 The Department has established time lines for the completion of the various registration processes. We were informed staff are aware of the time lines and try to achieve the targets. However, there is no formal system to ensure the time lines are met. We encouraged the Department to more formally monitor the time involved in processing licences and permits and compare it to targets.

13.50 We examined a sample of licence applications and identified three issues of concern.

- Tobacco wholesalers are required to provide security, in the form of surety bonds, based upon the volume of tobacco products they sell. However, this commenced in 1996 and tobacco wholesalers who were licensed prior to that time are not required to provide a surety bond. Since there is a cost to tobacco wholesalers to provide surety bonds, we believe it is not reasonable to use an implementation date as the only criteria to decide which wholesalers should provide security.
- Applicants requesting a bulk fuel vendor permit are required to have a motive fuel wholesaler licence from the Department of Environment and Labour. However, there is no procedure to ensure this licence is in place.
- Under the Revenue Act, certain fuel oil companies are considered fuel agents and must sign an agreement with the Department. Surety bonds are submitted to the Department as part of the licensing process. The Department does not review the surety bonds on a periodic basis to identify bonds that have expired and should be renewed.

Recommendation 13.10

We recommend that the Department establish risk-based criteria for determining which companies should provide surety bonds, and ensure it has up-to-date surety bonds from companies required to provide them. The Department should also ensure that licences or permits required by a client from another Department are in place.

CONCLUDING REMARKS

13.51 Based on our audit, Service Nova Scotia and Municipal Relations has systems to ensure it complies with the Revenue Act and Regulations as they relate to tobacco and gasoline and diesel oil taxes.

13.52 Systems for issuing and monitoring licences and permits are adequate. However the Department has inadequate systems for processing fuel and tobacco tax returns, and for conducting taxation-related audits and inspections. Also, improvements should be made to strengthen the collection of past due taxes.

Exhibit 13.1

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design the detailed audit tests and procedures.

The following criteria were used in our audit of Service Nova Scotia and Municipal Relations.

- The Department should comply, and have systems to ensure compliance, with applicable provisions of Provincial legislation and regulations.
- The Department's policies should be consistent with Provincial legislation and regulations.
- There should be systems and controls to ensure the correct amounts of gasoline and diesel oil and tobacco taxes are being remitted.
- There should be a system to ensure that inspections and audits are carried out in a reasonable manner and on a regular and timely basis.
- There should be reasonable follow-up of recommendations and warnings resulting from inspections and audits.

Exhibit 13.2

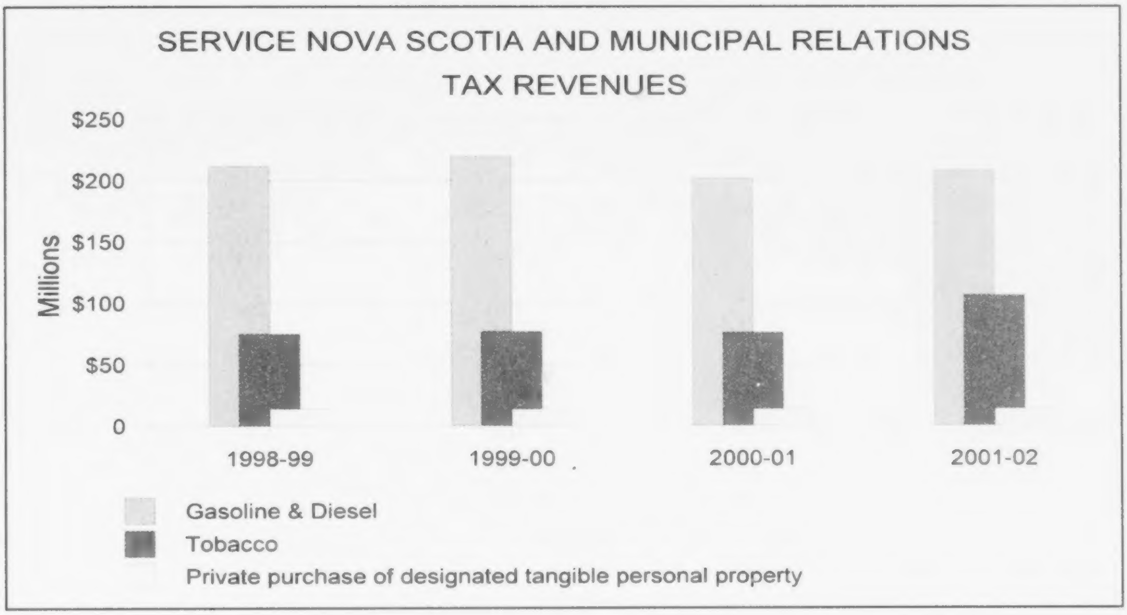

SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS
TAX REVENUES
Millions
$250
$200
$150
$100
$50
0
1998-99
1999-00
2000-01
2001-02
Gasoline & Diesel
Tobacco
Private purchase of designated tangible personal property

Exhibit 13.3

SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS LICENCES AND PERMITS ISSUED AS AT MARCH 31, 2002

TOBACCO

Type of Permit	Number Issued
Tobacco Manufacturer	12
Tobacco Wholesaler	37
Purchase and Sell Unmarked Tobacco	32
Stamp Imported Tobacco	2
Tobacco Retail Vendor	2,210
Designated Retail Vendor	44
Total	2,337

FUEL

Type of Permit	Number Issued
Fuel Agent	33
Bulk Plant	59
Fuel Retail Vendor	546
Fuel Retail Vendor - Fish Plant	74
Marine Tax Rate	54
Exempt Consumer	4,428
Total	5,194

Exhibit 13.4

SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS TYPES OF LICENCES AND PERMITS

TOBACCO

Tobacco Manufacturer's Permit - anyone who wants to manufacturer and mark tobacco products for resale in Nova Scotia.

Tobacco Wholesaler's Permit - anyone who wants to sell wholesale tobacco products in Nova Scotia.

Permit to Purchase and Sell Unmarked Tobacco - anyone in Nova Scotia who wants to sell tobacco products into another jurisdiction, into another country, to designated retail vendors, or with imported tobacco stamping.

Tobacco Retail Vendor (Seller) Permit - any retail store owner who wants to sell tobacco products in Nova Scotia.

Permit to Stamp Imported Tobacco - any tobacco retail vendor who wants to import tobacco products into Canada for resale in Nova Scotia.

Designated Vendor (Retail) Permit - any tobacco retail vendor designated by the Provincial Tax Commissioner who sells tobacco in Nova Scotia to a consumer at a retail store on a reserve (as defined in the Indian Act).

FUEL

Bulk Vendor Permit - any wholesaler of petroleum products who operates a bulk plant, bulk station and/or terminal and who stores gasoline and/or diesel oil in storage tanks.

Gasoline, Propane and Diesel Oil Retail Vendor (Seller) Permit - anyone wishing to sell gasoline, propane or diesel fuel at the retail level in Nova Scotia.

Consumer's Exemption Permit - anyone in Nova Scotia who qualifies for an exemption from the gasoline or diesel oil tax on purchases of marked gasoline and/or diesel oil used to operate qualified machinery and apparatus in any of the defined activities.

Marine Tax Rate Letter of Authority - anyone who wants to buy gasoline or diesel oil at a reduced rate of tax for use in a ship, boat or vessel operated solely for commercial purposes.

Application for International Fuel Tax License - any individual or firm who wants to operate a commercial vehicle weighing 26,000 pounds or more, and who resides in a province or state which has implemented the International Fuel Tax Agreement.

Single Trip Permit - any carriers (trucking companies) who want to enter Nova Scotia and are not members of the International Fuel Tax Agreement.

DEPARTMENT OF SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS' RESPONSE

Service Nova Scotia and Municipal Relations is in agreement with most of the findings of the audit and agrees with the recommendations. The Department had recognized two of the major areas needing attention — remittance processes and an audit enforcement strategy — and has plans in place for addressing them.

We have applied for capital to implement an integrated revenue control system for all of our revenue lines, including taxes. In the interim, we have requested Internal Audit to review our back office processes and recommend improvements.

In 2001-2002, we carried out more than 3,000 audits and inspections. The focus of this activity has been in areas of fuel and tobacco taxation, where the risk of loss to the Province is highest. Our enforcement strategy includes working closely with the Canada Customs and Revenue Agency, as well as staff from other jurisdictions. We have planned a review of our enforcement program for the 2002-2003 fiscal year, and it will be completed. We have also reserved funding for two more positions should this prove necessary.

While we acknowledge the comments regarding the planning process of our audit program, this is less of a concern than it appears because we have a very experienced audit staff — most with more than 20 years experience. However, the Department will be taking steps to improve the planning process.

In the last two years, staff have replaced and eliminated weaknesses in the licensing system, implemented three tobacco tax increases, and addressed the exemption for purchases of fuel by Natives on reserves. The licensing review covered over 10,000 permits, eliminating over 3,000 that were out of date. The implementation of a three-year renewal period will allow us to keep these permits up to date. The audits and inspections of tobacco inventories after the tax increases yielded over $3,000,000 in revenue. Now that these projects are largely completed, attention can be placed on the enforcement strategy and documentation issues raised in the report.

The high level outcome for this program is that actual revenues agree with forecasted revenues. Revenues are forecast based on economic activity and changes in consumption patterns (i.e. the rate of people quitting smoking). Except for unusual and one-time events, the actual revenues meet or exceed forecasts, which tells us that there is no significant tax evasion and no increase in tax evasion, in this area.

Finally, the Department would like to express its appreciation to the Auditor General for this review and for the insights that an external review such as this provides.

14.

TRANSPORTATION AND PUBLIC WORKS - PROCUREMENT BRANCH

BACKGROUND

14.1 The Department of Transportation and Public Works is responsible for administering the Government Purchases Act and the Government Procurement Policy. Within the Department, the responsibility rests with the Procurement Branch, a section of the Department's Government Services Division (see Exhibit 14.2 on page 233). The Department assumed responsibility for government procurement in January 2001 upon the transfer of the Procurement Branch from the Department of Finance.

14.2 The strategic plan for the Procurement Branch indicates that its responsibilities include:

- ensuring that the acquisition of goods, services, construction and facilities by government departments, agencies, boards and commissions is conducted in a manner which is open, fair, consistent, efficient and competitive;
- providing operational assistance in procurement activity;
- formulating and advising on policies and procedures governing the procurement process;
- assisting municipalities, academic institutions, school boards and hospitals (MASH Sector) in their procurement activities;
- coordinating, with the Department (now Office) of Economic Development, the negotiations and administration of trade agreements as they relate to the public procurement function;
- improving the procurement process by establishing quality assurance and standards for the acquisition of both commodities and services; and
- building public confidence in the integrity of the public sector procurement process.

14.3 The acquisition of goods in government is regulated by the Government Purchases Act. The Act assigns responsibility for the acquisition of goods to the Nova Scotia Government Purchasing Agency (i.e., Procurement Branch) and applies to purchasing by all government departments, as well as any boards, commissions and agencies of government designated by Executive Council. The Act requires, except in certain defined circumstances, that purchases be tendered to ensure fair and competitive procurement by government. Tendering is performed by the Public Tenders Office, an operation of the Procurement Branch.

14.4 On January 26, 2001, government updated its policy for the acquisition of goods, services, construction, and facilities procured by purchase, contract, lease, or long-term rental. The Government Procurement Policy applies to all government departments, agencies, boards and commissions. Provincially-funded public sector entities such as academic institutions, regional school boards, district health authorities and crown corporations must also follow the policy. All procurement must follow specified competitive processes. However, the policy also allows for alternative procurement practices, such as sole-source purchasing and restricted competitions, as long as a purchasing requirement meets conditions outlined in the policy (see Exhibit 14.6).

14.5 The Province has entered into two interprovincial agreements relating to government procurement. The Atlantic Procurement Agreement strives to eliminate any discrimination among Atlantic Canadian provincial governments in the awarding of procurement contracts to businesses operating in the Atlantic Provinces. The Agreement on Internal Trade is an accord signed by all First Ministers in Canada aiming to eliminate barriers to trade, investment and mobility within Canada. Both agreements are administered by interprovincial committees.

14.6 The Procurement Branch has a staff of 22 and a budget of $1.2 million for 2002-03. During the 2001-02 fiscal year 50,224 purchase orders, totaling $393.8 million, were issued (see Exhibit 14.3). However, these amounts reflect only purchases recorded on the Province's Corporate Financial Management System, and consequently do not include purchases of many government organizations with their own financial systems.

RESULTS IN BRIEF

14.7 The following are our principal observations from this audit.

- The Government Procurement Policy allows government organizations to purchase goods with a value up to $5,000 without public tender if they obtain at least three quotations. Under Section 8 of the Government Purchases Act, the Procurement Branch must tender for the purchase of goods over $1,000. An amendment to the Act has been drafted to increase the limit to $5,000, but the new legislation has not been presented to the House of Assembly yet.

- The Procurement Branch has taken steps to promote a clear understanding of procurement goals and processes.

- A policy statement was drafted to guide government organizations in evaluating and conducting public-private partnership procurement. However, the policy statement was never approved by Executive Council.

- Purchase orders for procurements by government departments and agencies over $25,000 must be approved and issued by the Procurement Branch. Procurement staff can put a transaction on hold if there are questions as to its compliance with legislation and policy. After a tender is conducted and bids are evaluated by the client organization, the organization must provide an explanation to the Procurement Branch if a bid other than the lowest priced one is accepted.

- The Government Procurement Policy applies to all Provincial government entities, including departments, agencies, boards, commissions, crown corporations, academic institutions, regional school boards and district health authorities. However, there is little external monitoring of the procurement activities of crown corporations, academic institutions, regional school boards and district health authorities. Similarly, there is little external monitoring of these entities to ensure compliance with interprovincial procurement agreements.

- Government organizations sometimes bypass the procurement process and Procurement Branch involvement by processing procurement transactions through the accounts payable module, rather than the procurement module, of the government's Corporate Financial Management System. Procurement Branch staff monitor transactions processed through the accounts payable module for improper recording of purchases, and questionable transactions are followed up.

- Some policies relating to alternative procurement (e.g., sole-source purchasing) are not always followed by government organizations. Alternative procurement is being conducted without consultation or agreement of Procurement Branch staff. Not all alternative procurement is reported to the Procurement Branch, as required by policy.
- We found little review and challenge of alternative procurement transactions by Procurement Branch staff as long as the transaction was approved by the head of the client organization. The Government Procurement Policy does not specifically state that the Procurement Branch is responsible for controlling client organization procurement practices, and does not specify any method of resolving the issue if Procurement Branch staff challenge a decision approved by the head of a client organization. There is no requirement to report alternative procurement transactions, or even differences of opinion, to a central government organization such as Treasury and Policy Board.

AUDIT SCOPE

14.8 In August 2002 we completed a broad scope audit of the Procurement Branch of the Nova Scotia Department of Transportation and Public Works under the mandate established by Section 8 of the Auditor General Act. Our audit was conducted in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

14.9 The objectives of this assignment were to assess the Procurement Branch's:

- process for developing and promulgating procurement polices and procedures;
- compliance with legislation, policy and interprovincial agreements in the performance of its procurement activities; and
- accountability framework with respect to its procurement responsibilities.

14.10 Audit criteria were developed to assist in our assessment of the systems and practices of the Procurement Branch. The audit criteria were discussed with and accepted as appropriate by senior management of the Department, and are outlined in Exhibit 14.1. Our audit procedures included interviews of management and staff, testing of procurement transactions, as well as an examination of manuals, reports and other documents.

14.11 Our audit examined controls and systems of the Procurement Branch of the Department of Transportation and Public Works only. This assignment did not address procurement activities by departments and other government organizations conducted without the involvement of the Procurement Branch.

PRINCIPAL FINDINGS

Standards

14.12 The primary legislation dealing with government procurement is the Government Purchases Act. It was last revised in 1992. It is a relatively brief piece of legislation, and there are no regulations. The Act only regulates the purchasing of goods. There is no legislation to regulate the purchasing of services by government.

14.13 The last significant revision to the Government Procurement Policy occurred in 1996. This policy was developed from a white paper entitled *Fairness in Government*. The white paper was widely circulated and there was significant stakeholder consultation. The policy incorporated stakeholder comments, as well as input received from the Atlantic Procurement Coordinating Committee and the Procurement Working Group for the National Agreement on Internal Trade. The policy was revised again on January 26, 2001 to make changes to procurement threshold levels and approval requirements for alternative procurement practices. However, the changes were not extensive and were only discussed and circulated within government.

14.14 We examined the policy to see if it was consistent with the Government Purchases Act. We noted three exceptions.

- The Government Procurement Policy applies to all Provincial government entities, including departments, agencies, boards, commissions, crown corporations, academic institutions, regional school boards and district health authorities. The Government Purchases Act indicates that it applies to departments of government and, under Section 5(b), any government boards, commissions and agencies designated by Governor in Council. However, no such organizations have been designated.

- The Government Procurement Policy allows government organizations to purchase goods with a value up to $5,000 without public tender if they obtain at least three quotations. Under Section 8 of the Government Purchases Act, the Procurement Branch must tender for the purchase of goods over $1,000.

- The Government Procurement Policy applies to all purchases of goods and services (including construction and facility leasing). The Government Purchases Act applies only to the procurement of goods.

14.15 Each of these differences is addressed in draft legislation and regulations prepared by the Procurement Branch. However, the legislation has not yet been introduced in the House of Assembly.

14.16 The Procurement Branch maintains a policy and procedure manual. The manual was updated for the most recent changes to the Government Procurement Policy and is available to staff of all government departments and other entities (client organizations) to help them administer procurement activities. An operating procedures manual, for use by Procurement Branch staff only, was being finalized at the time of our audit. We examined the two manuals and found that they are derived from or fully consistent with the Government Procurement Policy. However, we found the manuals do not address all areas where guidance may be needed, notably: e-procurement; amendments to purchase orders; review of procurement transactions; and review and reporting of alternative procurement transactions.

14.17 The Procurement Branch has taken steps to promote a clear understanding of procurement goals and processes. There are numerous publications which are available in paper format and on the internet (Exhibit 14.5 on page 236). The Procurement Branch provides ongoing advice and assistance to staff of client organizations involved in the procurement process. Presentations are given at various seminars and meetings, and there is day-to-day contact with individuals and groups wishing to do business with the government.

14.18 In February 2000 a study of the government's experience with public-private partnership was completed by a consultant. The consultant concluded that public-private partnering should continue to be considered for procurement projects as long as it could be clearly demonstrated that such an approach is more beneficial than traditional procurement methods, and controls exist to ensure the process is properly conducted and monitored. Upon the completion of the study, a policy statement was drafted by the Procurement Branch to guide government organizations in evaluating and conducting public-private partnership procurement. However, the policy statement was never approved by Executive Council.

14.19 We examined the processes of the Procurement Branch for ensuring procurement policy remains current with changes in technology, as well as government and business practices. In our view, the system used to plan and control policy development needs strengthening. The Procurement Branch has limited resources dedicated to this function. There are no time lines for review and updating of procurement legislation and policy. There are no formal criteria or prioritization processes to identify where the need for new or revised policy is most important. Also, once a decision is made to amend or create a new policy, there are no milestones, time lines or responsibilities established.

Compliance with Legislation, Policy and Agreements

14.20 *Monitoring and control* - The Procurement Branch is responsible for ensuring the procurement of goods, services and construction throughout government is conducted in accordance with the Government Procurement Policy. The Procurement Branch addresses this responsibility in a number of ways. Procurement staff in client organizations are provided with publications which describe and interpret procurement policies. They are informed when there are changes to procurement policies and procedures. Procurement Branch staff attempt to visit all staff involved in government procurement activities at least once each year. They are also available to answer any questions or concerns about procurement policies or procedures.

14.21 Purchase orders for purchases by government departments and agencies over $25,000 must be approved and issued by the Procurement Branch, rather than the client organization. Procurement staff can put a transaction on hold if there are questions as to compliance with legislation and policy. After a tender is conducted and bids are evaluated by the client organization, the organization must provide an explanation to the Procurement Branch if a bid other than the lowest priced one is accepted.

14.22 The Department's Director of Purchasing reviews a daily list of tenders issued and tenders opened by the Public Tenders Office. He also reviews a monthly report of all purchase orders issued. Unusual items are followed up.

14.23 The Procurement Branch monitors complaints about specific procurement transactions or other procurement issues received from individuals or organizations wishing to do business with the government. All complaints are investigated by management and a formal response is sent to the company or individual making the complaint. A register is maintained to document the action taken to address each complaint. A copy of the complaint register is included in the annual report prepared by the Procurement Branch.

14.24 The Government Procurement Policy applies to all Provincial government entities, including departments, agencies, boards, commissions, crown corporations, academic institutions, regional school boards and district health authorities. The policy indicates that responsibility for compliance with the policy falls upon the Chief Executive Officer (CEO) of each government organization. CEOs are accountable for compliance with this policy, as they are for any other legislated or policy requirements, to the Minister responsible for the organization. However, there are no requirements that government organizations report on compliance with procurement policies. In addition, we found that while the Procurement Branch does monitor procurement by government departments and agencies which use the government's Corporate Financial Management System (CFMS), it is not involved with and does not monitor purchasing by organizations which use their own financial systems, such as crown corporations, regional school boards and district health authorities. The Procurement Branch was not able to provide us with information on the volume of purchasing by the government organizations it does not monitor. Accordingly, there is little external monitoring of the procurement activities of many government organizations which must comply with government procurement policies.

14.25 Government organizations must also comply with obligations identified in the Atlantic Procurement Agreement and the Agreement on Internal Trade. Under the Atlantic Procurement Agreement, ASH sector entities (defined to include academic institutions, regional school boards and hospitals - i.e., district health authorities) are to provide the Atlantic Procurement Coordinating Committee with quarterly reports outlining all reportable exceptions to the Agreement. However, upon agreement of all four provinces, this requirement was dropped. As well, the Procurement Branch does not monitor crown corporations and ASH sector entities to ensure compliance with interprovincial procurement agreements.

14.26 Government organizations often purchase a large number of similar goods and/or services in the span of a year (e.g., desk-top computers, professional services). In such cases it would be very time consuming to conduct a competition each time a need for such an item is identified. To aid efficiency, but retain the advantages of competitive purchasing, government organizations (individually or in groups) advertise for standing offers on certain goods and services routinely required. Once the competition has been conducted and a winning bid has been selected, the organization(s) are able to purchase from the successful bidder at the predetermined price for the length of time agreed to in the standing offer. We observed that the Procurement Branch is involved in the tendering and monitoring of standing offers.

14.27 Section 13 of the Government Procurement Policy states that all procurement activities will be subject to audit by the Procurement Branch, departmental internal auditors, or by the Auditor General. Despite this provision, there is no formal audit program for government procurement. The Office of the Auditor General and the Corporate Internal Audit section of the Department of Finance are operations independent from the Procurement Branch with responsibility for selecting and performing a wide variety audits in a large number of government entities. The Procurement Branch has procedures for reviewing certain procurement transactions, but the process is not rigorous enough to be considered auditing.

14.28 A report of all purchase orders issued is generated from the Corporate Financial Management System (CFMS) on a biweekly basis to facilitate the Procurement Branch's procurement review process. Transactions listed on the report are reviewed to ensure they adhere to procurement policy and guidelines for recording procurement transactions in CFMS. A report of all accounts payable transactions over $1,000 is also generated from CFMS to help staff determine whether there are purchases that should have been processed through the procurement system (see paragraph 14.34). E-mails are sent to the procurement section of client organizations to question unusual transactions and there are procedures to ensure explanations are received on a timely basis. However, minimal documentation is prepared to document the scope and results of the reviews performed and explanations received are rarely verified by an examination of documentation from client organizations. And, as discussed above, these reviews do not include purchases by organizations with their own financial systems (e.g., crown corporations, regional school boards).

14.29 We believe there could be better reporting on the results of procurement transaction reviews to senior management of the Department. A quarterly report is prepared, but it only provides summary statistical information. Commentary should be included in the reports to identify areas of concern, government organizations which appear to be regularly contravening the Government Procurement Policy, and policy initiatives to be considered to address problem areas. Furthermore, senior management does not perform any formal monitoring to ensure transaction reviews are appropriately documented, all observations have been sent to the client organizations and reasonable responses have been received.

Recommendation 14.1

We recommend that government review its practices for ensuring compliance with procurement policy and agreements. We believe either the role of the Procurement Branch needs to be expanded and its practices strengthened, or alternative measures need to be developed to hold all government entities individually accountable for procurement activity.

14.30 *Testing of regular procurement transactions* - We selected a sample of regular (i.e., non-alternative) procurement transactions recorded in the Corporate Financial Management System of the Province. We noted instances where:

- transactions were classified as regular procurement even though information obtained indicated the purchase was made using alternative procurement methods (4 of 65 items tested);
- approval from client organization staff to award tenders was not on file (2 of 65 items tested); and
- tender award information was not recorded on the internet website (5 of 65 items tested), or was recorded incorrectly (1 of 65 items tested).

14.31 We were able to examine documentation for each transaction we selected for testing. However, information received from bidders was sometimes on file at the Procurement Branch and other times on file at the client organization. Staff of the Procurement Branch often did not know where to find requested documents. Difficulties in locating documentation indicates a need for more formal documentation and filing standards. It also shows that the Procurement Branch does not always examine documentation in support of the procurement transactions it helps to administer, and is not always in a position to know that significant purchases are fully in compliance with procurement policy.

14.32 We also observed a lack of communication involving the approval of certain procurement transactions by the Procurement Branch. Transactions over $25,000 must be approved by the Procurement Branch. However, we noted an instance where one Branch staff person's refusal to proceed with a procurement pending resolution of outstanding questions was circumvented by obtaining approval from another Procurement Branch staff member. There is no system to enable staff to know that a transaction has been questioned by another staff member.

14.33 Procurement transactions need to be recorded consistently in CFMS so transactions can be traced from the purchase requisition to the final purchase order. We observed there was no consistency in how capital construction projects, such as school construction and renovations, are recorded in CFMS. Likewise, there is no consistency in how amendments to purchase orders are recorded in CFMS. In addition, there is minimal, if any, documentation at the Procurement Branch to support changes to purchase order amounts and we identified instances where the Procurement Branch was not notified of amendments to purchase orders.

14.34 Some government payments, such as grant payments, travel expense reimbursements and lease payments, are not required to be processed through the procurement module of CFMS, because there is no competitive procurement process involved. Such payments are processed through the accounts payable module of CFMS. However, we found that client organizations sometimes bypass the procurement process and Procurement Branch involvement by processing procurement transactions through the accounts payable module of CFMS rather than the procurement module. Procurement Branch staff monitor transactions processed through the accounts payable module for improper recording of purchases, and questionable transactions are followed up. However, we noted that there are no formal policies on the types of transactions that are permitted to be recorded in the accounts payable module.

Recommendation 14.2

We recommend more guidelines be developed and communicated, and practices be strengthened, for the documentation and recording of procurement transactions.

14.35 *Testing of alternative procurement transactions* - In certain situations goods and services are obtained through alternative procurement methods. The purpose of using an alternative procurement process (e.g., sole-source buying) is usually to meet a requirement which a formal competitive process could not satisfy. Section 8 of the Government Procurement Policy lists circumstances under which alternative procurement can be undertaken (Exhibit 14.6), including:

- an emergency or unforeseeable situation;
- to ensure compatibility with existing products, exclusive licences, copyright, and patent rights;
- goods and services which can only be supplied by a particular supplier and no alternative or substitute exists; and
- work to be performed according to the terms of a warranty or guarantee.

14.36 When an alternative procurement process is contemplated by a client organization, the Government Procurement Policy requires client staff to discuss the situation with staff of the Procurement Branch. If Procurement Branch staff agree to the proposal, a joint recommendation is made to the Chief Executive Officer of the client organization (e.g., Deputy Minister). If Procurement Branch staff do not agree, alternative procurement can proceed with the approval of the CEO. In all cases, an alternative procurement practices form is to be completed, signed by the CEO and provided to the Procurement Branch.

14.37 We selected a sample of alternative procurement transactions recorded in CFMS. They were mostly transactions involving sole-source purchasing. We made the following observations.

- The section number of the policy under which the alternative procurement was undertaken was not identified in 6 of 12 items tested.
- There was insufficient information to determine if the procurement met the criteria required to be an alternative procurement transaction in 12 of 12 items tested.
- The approval of the Deputy Minister was not recorded in 4 of 12 items tested.
- The procurement transaction was not listed on the summary report of alternative procurement transactions in 9 of 12 items tested.
- The transaction was classified as an alternative procurement even though it followed the regular procurement process in 4 of 10 items tested.

14.38 We selected a sample of alternative procurement practices forms submitted by client organizations and made the following observations.

- The section number of the policy under which the alternative procurement was undertaken was not noted in 2 of 8 items tested.
- The reason for using alternative procurement methods was not sufficiently explained in 2 of 8 items tested, and/or there was insufficient information to determine if the procurement was a valid alternative procurement transaction in 3 of 8 items tested.
- Other required information was not recorded in 4 of 8 items tested.

14.39 We concluded that some policies relating to alternative procurement are not always followed by client organizations. Alternative procurement is being conducted without consultation or agreement of Procurement Branch staff. Not all alternative procurement is reported to the Procurement Branch. For example, the dollar value of alternative procurement transactions reported by client organizations to the Procurement Branch for the year ended March 31, 2001 totaled $9 million. CFMS shows alternative procurement transactions totaled $53 million. There was no reconciliation of these two amounts to explain the difference, and no procedures in place to ensure full reporting by client organizations.

14.40 We were informed that Procurement Branch management review a summary of alternative procurement transactions reported by client organizations, looking for any problems, trends or evidence of misuse of alternative procurement practices. However, we noted that explanations in this report for individual transactions were often insufficient to give a full sense of why alternative procurement practices were used.

14.41 All purchase orders for purchases by government departments and agencies over $25,000 are to be approved and issued by the Procurement Branch. Accordingly, procurement staff can delay such a transaction if they believe it is not in accordance with the procurement policy. In theory, the Branch is in a position to halt inappropriate procurement transactions. However, as noted in our audit of procurement practices at the Department of Health (Chapter 9, page 159), a client organization can purchase a good or service through an alternative procurement process and prepare a purchase order after-the-fact. Further, we found little review and challenge of alternative procurement transactions by Procurement Branch staff as long as the transaction was approved by the head of the client organization, even if the Procurement Branch was not consulted as required by policy. We observed that a simple reference to 'Deputy Minister approval' in a data field in CFMS would often be sufficient to avoid any questions by the Procurement Branch. The Procurement Branch generally did not insist on having a signed form to substantiate the approval.

14.42 We observed a hesitance to challenge alternative procurement transactions in client organizations. Government Procurement Policy does not specifically state that the Procurement Branch is responsible for controlling client organization alternative procurement practices, and does not specify any method of resolving the issue if Procurement Branch staff challenge a decision approved by the head of a client organization. Furthermore, there is no requirement to report alternative procurement transactions, or even differences of opinion, to a central government organization such as Treasury and Policy Board.

14.43 Previous to January 26, 2001 Government Procurement Policy required all alternative procurement transactions to be reported to the then Policy and Planning Secretariat. This placed an element of control over higher-risk procurement practices in a central body with some authority over individual government organizations. With the change in policy, control was placed with the Chief Executive Officers of government organizations. However, no formal accountability mechanism (e.g., public reporting) was implemented for this new responsibility.

Recommendation 14.3

We recommend that government comply with policies and guidelines for alternative procurement, and that transactions be better documented. We believe there needs to be a better system to address known non-compliance with alternative procurement policies and differences of opinion between the Procurement Branch and its client organizations.

Accountability

14.44 An integral part of the accountability process is the provision of sufficient, appropriate, understandable and timely information on areas of assigned responsibility. The Procurement Branch has a relatively small number of staff, and for this reason the accountability process within the Branch involves a high degree of personal contact. Various meetings are held to discuss performance and strategy and there are a number of statistical reports prepared by staff and reviewed by management. However, at the time of our audit, many of the performance evaluations for Procurement Branch staff were two or three years behind schedule and management were trying to get evaluations up-to-date.

14.45 Staff prepare a Procurement Fiscal Year End Report for presentation to the Minister of Transportation and Public Works. The most recent Report sent to the Minister in August 2002, was for the year ended March 31, 2002. Neither the Report or a summary is presented to the House of Assembly.

Recommendation 14.4

We recommend that, in order to maintain a high level of confidence in the procurement process and ensure all procurement is carried out in an open and fair manner, there be some level of reporting to the House of Assembly and other stakeholders on procurement.

14.46 The Procurement Fiscal Year End Report is statistical in nature and lacks substantive information on the performance of the Procurement Branch and thus does not fulfill its potential as an accountability document. The Report does not contain objectives or reporting of performance against stated objectives. The Report does not contain sufficient information relating to compliance with the Government Purchasing Act and the Government Procurement Policy, a major responsibility for the Procurement Branch.

14.47 The Procurement Fiscal Year End Report contains statistics on payments to vendors which are reported under various categories. Procurement Branch staff do not believe they have identified all vendors who should be included in these statistics. There is no statement in the Report about this limitation in the information.

14.48 A business plan is a key document used to convey an organization's goals and strategies for the current and future years. The Procurement Branch has a business plan containing information on its mandate, mission, core values, strategic goals, demands to be met and long-term objectives. As part of the government business planning process, the Department of Transportation and Public Works prepares an annual business plan as well. However, the Department's 2002-03 business plan does not have much information on its procurement operations.

14.49 The business plans do not identify performance outcomes and measures related to the procurement function. As part of a Department-wide initiative, performance outcomes and measures were being developed at the time of writing this Chapter. Two performance outcomes have been identified relating to procurement - an open, fair and best value procurement process, and appropriate and cost-efficient technology procurement. Various performance indicators have been identified to monitor these outcomes.

Recommendation 14.5

We recommend continued development of performance measures, collection of supporting information and annual reporting on performance. Where possible, performance reporting should include quantitative measures compared to predetermined targets, with explanations for significant variances.

CONCLUDING REMARKS

14.50 The Procurement Branch does not have a formal process for developing procurement policies, but there is a formal procurement policy which is well-communicated to the government organizations which are required to comply with it. There are some differences between the policy and the Government Purchases Act.

14.51 We observed non-compliance with the Government Purchases Act relating to the dollar limit set for transactions which must be tendered. We observed instances of government organizations not complying with the Government Procurement Policy. A significant number of government organizations are not externally monitored to ensure they are in compliance with procurement policy and interprovincial procurement agreements. Also, there is little challenge of government agencies using alternative procurement practices, even when procurement requirements do not meet the criteria presented in the Government Procurement Policy.

14.52 There is little reporting to the House of Assembly on government procurement transactions and the performance of the Procurement Branch.

Exhibit 14.1

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design the detailed audit tests and procedures.

The following criteria were used in our audit of the Procurement Branch of the Department of Transportation and Public Works.

- *Standards* - The Procurement Branch should have sufficient information to determine where procurement policies are in need of development or change. There should be systems in place to develop appropriate procurement policy and procedures on a timely basis. There should be appropriate communication and instruction with respect to procurement policy and procedures.

- *Compliance with Legislation* - Applicable provisions of Provincial legislation and regulations should be complied with. Procurement policies should be consistent with Provincial legislation and regulations. There should be a process to enable management to monitor and be sure that key provisions of Provincial legislation and regulations are being complied with. There should be a system to ensure that reviews of procurement transactions are carried out on a regular and timely basis. There should be follow up on the implementation of recommendations from reviews of procurement transactions.

- *Accountability* - There should be adequate systems and controls to ensure the completeness, accuracy and timeliness of information reported. There should be relevant and timely reporting to inform the Minister and House of Assembly of the Procurement Branch's performance. The Procurement Branch should determine and report whether procurement legislation and policy is being properly implemented and is achieving its objectives.

Exhibit 14.2

DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS (T&PW) ORGANIZATION CHART - PROCUREMENT BRANCH

Minister
of T&PW

Deputy Minister
T&PW

Executive Director
Government Services
Division

Corporate IT
Operations

**Procurement
Branch**

Real Property
Services

Trunk Mobile
Radio System

**Public Tenders
Office**

Other positions reporting to the Deputy Minister:

- *Executive Director of Highway Operations*
- *Executive Director of Public Works*
- *Director of Finance*
- *Director of Human Resources*
- *Director of Information Technology*
- *Director of Policy and Planning*
- *Director of Public Affairs and Communications*

Exhibit 14.3

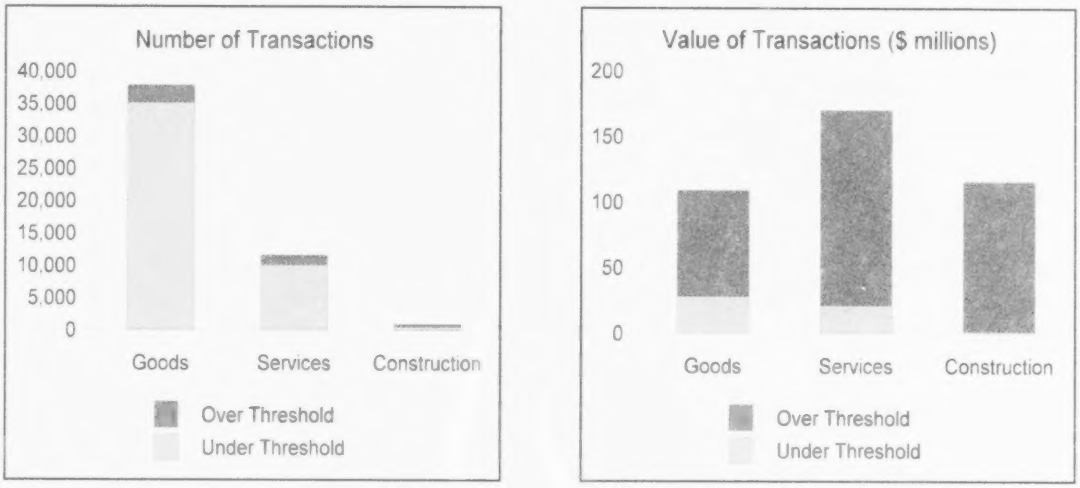
PROCUREMENT STATISTICS

Based on *Procurement Fiscal Year End Report - April 01, 2001 to March 31, 2002*

	Purchase Orders	Value of Purchases
Goods	37,797	$ 108,634,128
Services	11,547	169,724,671
Construction	880	115,466,902
Subtotal	50,224	393,825,701
Procurement cards		5,547,948
Lease payments on P3 schools		54,343,155
School construction		11,428,629
Rental of government facilities		30,341,764
Recurring payments		3,153,474
Accounts payable transactions		23,730,876
Total		$ 522,371,547

Exhibit 14.4

DISTRIBUTION OF TRANSACTIONS BY VALUE (OVER AND UNDER TENDERING THRESHOLDS)



DISTRIBUTION OF CONTRACTS BY COMPETITION TYPE

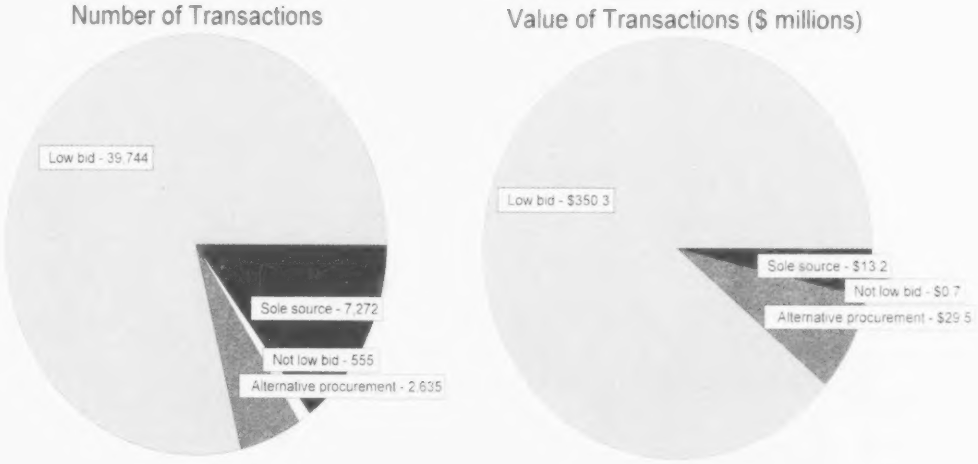


Exhibit 14.5

LEGISLATION, POLICY AND GUIDELINE DOCUMENTS FOR GOVERNMENT PROCUREMENT

Legislation

Government Purchases Act

Policies

Policy on Government Procurement

Summary and Overview of Policy

Government Procurement Process

Province of Nova Scotia Procurement Manual / Policies and Procedures

Environmentally Responsible Procurement Policy

Facilities Procurement Guide

Construction Contract Guidelines

Public Sector Purchasing Contracts

Guide to the Submission & Evaluation of Unsolicited Proposals

Supplier Complaint and Dispute Settlement Process

Availability of Surplus Government Assets for Non-Profit Organizations

Government Procurement Process - ASH Sector

Agreements

Atlantic Canada Procurement Agreement

Agreement on Internal Trade

Guides

Procurement Branch Tenders Brochure

Request for Quotations

Requests for Proposals or Expression of Interest

Standard Instructions

General Instructions

Supplements to General Instructions

Each document is available for viewing at: www.gov.ns.ca/finance/tour/policy.asp

Exhibit 14.6

EXCERPTS FROM GOVERNMENT PROCUREMENT POLICY

1. Policy Objective

The objective of this policy statement is to establish and maintain a high level of confidence in the procurement process by ensuring that all public sector procurement is carried out in an open, fair, consistent, efficient, and competitive manner.

The Government of Nova Scotia is committed to:

- ensuring that the government's requirements for goods, services, construction, and facilities are met through an open and fair process that provides the highest degree of competition and value to the Province
- ensuring that all bidders have reasonable notice and opportunity to tender
- fostering economic development by giving every capable Nova Scotia supplier the opportunity to do business with the government
- encouraging Nova Scotia businesses to be competitive and to sustain quality product development
- adhering to the Agreement on Internal Trade and the Atlantic Procurement Agreement, which create economic opportunities for Nova Scotians
- treating out of province bidders in the same way as their jurisdictions would treat bidders from Nova Scotia
- being accountable to the public for procurement decisions

4. Procurement of Goods

Goods with an estimated value of up to and including $5,000 will be acquired by departments at competitive prices in accordance with procedures established by the Procurement Branch of the Department of Transportation & Public Works.

Goods with an estimated value above $5,000 will be posted on an electronic public bid notice system website. In addition, bids may also be invited from selected suppliers where required to ensure an adequate degree of competition.

Bids will be evaluated not only on the price submitted but also on such factors as quality, delivery, servicing, and the capacity of the bidder to meet the criteria stated in the bid documents. Unless there is a valid and written rationale for the contract award, available for public review, the lowest competent tender will be accepted.

5. Procurement of Services

Services with an estimated value of up to and including $10,000 will be acquired by departments in accordance with procedures established by the Procurement Branch of the Department of Transportation & Public Works.

Services with an estimated value above $10,000 will be posted on an electronic public bid notice system website. In addition, bids or proposals may also be invited from selected suppliers where required to ensure an adequate degree of competition.

In order to establish the best value of the services offered, bids will be evaluated on price, qualifications, experience, past performance, and the capacity of the bidder to meet the criteria stated in the bid documents. Unless there is a valid and written rationale for the contract award, available for public review, the lowest competent tender will be accepted.

Specialized Services - Procurement of specialized services may require different processes to reflect the unique nature of the service.

Insurance Services - All insurance service requirements valued at more than $10,000 will be acquired by public tender at intervals not greater than every five years. Insurance will normally be tendered based on major insurance service categories. Major insurance services may be renewed on an annual basis up to the five-year maximum on terms satisfactory to the Province. Otherwise, the service may be put to competitive tender call at any annual renewal date.

Architectural, Engineering, and Surveying Services - Requirements for consultants for assignments with an estimated value of up to and including $50,000 will be acquired through a public notice inviting consultants to submit corporate qualifications, to be updated at the consultant's initiative. The submissions will be in a prescribed format to facilitate the development of a departmental data base. Consultants will be selected from the departmental data base and interviewed, and a fee will be established. Consultants for assignments with an estimated value greater than $50,000 will be selected as a result of a public advertisement and posted on an electronic public bid notice system website.

The services of these professional groups will be obtained through a qualifications-based selection process, which will include an assessment of competence, experience, cost, and other factors specific to the requirement as identified in the guidelines.

6. Procurement of Construction

Construction requirements with an estimated value of up to and including $10,000 will be acquired by departments at competitive prices, in accordance with procedures established by the Procurement Branch of the Department of Transportation & Public Works.

Construction requirements with an estimated value above $10,000 will be posted on an electronic public bid notice system website. In addition, bids or proposals may also be invited from selected suppliers where required to ensure an adequate degree of competition.

Construction competitions will be carried out in accordance with the Construction Contract Guidelines developed by the Department of Transportation & Public Works.

Bids may be evaluated on price, past performance, and the capacity of the bidder to meet the criteria stated in the bid documents. Unless there is a valid and written rationale for the contract award, available for public review, the lowest competent tender will be accepted.

7. Procurement of Facilities

All building lease requirements are to be acquired by way of public advertisement, in accordance with the Government's Facilities Procurement Guide developed by the Department of Transportation & Public Works.

8. Alternative Procurement Practices

Departments wishing to make use of an Alternative Procurement Practice, with the exception of an emergency situation, are to consult with the Procurement Branch to identify the most appropriate means by which to proceed with the satisfaction of the requirement. If in agreement, the Department and Procurement Branch will make a joint request to the Deputy Minister of the requesting Department who will then approve or reject the recommendation. In case or cases of a disagreement between the Department and the Procurement Branch the Department may present the proposed Alternative Procurement to their Deputy Minister for consideration and decision.

It is the Deputy Minister's responsibility to ensure that all procurements made by their Department are properly documented and recorded in the Province's Corporate Financial Management System.

Procurement processes other than those described in this policy statement may be used in circumstances such as those described below. Such processes are not to be used for the purpose of avoiding competition or to discriminate against specific suppliers. Each instance requires the prior approval of the appropriate Deputy Minister. These circumstances are:

8.1 an unforeseeable situation of urgency or emergency where the good, service, or construction requirement cannot be obtained by means of open procurement procedures

8.2 a situation where tendering could reasonably be expected to compromise government confidentiality, cause economic disruption, or otherwise be contrary to the public interest

.3 to ensure compatibility with existing products; to recognize exclusive rights, such as exclusive licenses, copyright, and patent rights; or to maintain specialized products that must be maintained by the manufacturer or its representative

8.4 where, for technical reasons, there is an absence of competition, and the goods or services can be supplied only by a particular supplier and no alternative or substitute exists

8.5 the procurement of goods or services for which there is a statutory monopoly that is controlled by a supplier

8.6 the purchase of goods on a commodity market

8.7 work to be performed on or about a leased building, or portions thereof, that may be performed only by the lessor

8.8 work to be performed according to the provisions of a warranty or guarantee

8.9 the procurement of a good or service to be developed in the course of and for a particular contract for research, experiment, study, or original development, but not for any subsequent purchases

8.10 the purchase of goods under exceptionally advantageous circumstances such as bankruptcy or receivership, but not for routine purchases

8.11 the procurement of original works of art

8.12 the procurement of subscriptions to newspapers, magazines, or other periodicals

8.13 processes that foster the development of minority businesses

8.14 processes that foster the development of sheltered workshop programs

8.15 goods intended for resale to the public

8.16 goods and services from persons with disabilities, philanthropic institutions, or through employment equity programs

8.17 services of expert witnesses, specifically in anticipation of litigation or for the purpose of conducting litigation

8.18 medical services for persons in the care and custody of the Province

8.19 procurement of goods or services from another level of Government

DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS' RESPONSE

General Comments:

The Procurement Branch, Department of Transportation and Public Works, appreciates the extensive audit done by the Auditor General's staff, and their helpful approach was certainly of value in strengthening the procurement operations of government. Action on all items is either underway or has been included in our 2002-2003 workplans.

Paragraph 18

The Public Private Partnership (P3) draft policy booklet remains as a draft as the P3 process is not currently in use on any projects. The document is available should any public body wish to pursue the P3 arrangement at any future time. For non P3 projects, a Request for Proposal process is used.

Paragraph 19

The Procurement Branch reviews it policies and procedures as required and updates the website. The suggestion by the Auditor General is appreciated and will be included in our annual work plans so that the review is documented and changes in documents can be kept on file for historical purposes. We have included this in our business plans so that the review is done annually each January.

Paragraph 24

Agree - However, public bodies have the responsibility to their respective Ministers to comply with the Government's policy objective of fair and open procurement. The Procurement Branch has established good working relationships with these public bodies; three examples being the use of the Procurement Branch website for advertising tenders, discussions on procurement policy applications and assistance in resolving complaints.

Paragraph 25

Agree - All four Atlantic provinces agreed that the reporting by MASH Sector entities was not required. There have been no complaints about Nova Scotia MASH Sector purchases from other jurisdictions, and it has been more effective to concentrate on joint purchasing advantages such as school buses, and being a source of advice and assistance to these other publicly funded organizations.

Paragraph 26

The Procurement Branch is responsible for all standing offers for government departments. The standing offer requirements are normally reviewed before their expiry dates to determine if the standing offer should be re-tendered/renewed or cancelled. Suppliers to the information technology standing offers have all been advised that contracts will be terminated if prices held on the database are not updated. The system flags the vendor with a warning if prices are not updated monthly. The Procurement Branch also does periodic surveys to ensure the technical information is up to date. The most recent survey was done in June 2002.

Paragraph 27

The analysis by the Procurement Branch is a monthly review of compliance with the Procurement Policy. This compliance review consists of:

a. Director of Purchases monthly review of all CFMS Procurement Module transactions (purchase orders) for all departments of government;

b. Staff review of transactions for CFMS procedural compliance, and advising users on observations;

c. Staff review of accounts payable transactions to identify transactions that should have been recorded in the Procurement Module.

These compliance reviews have proven to be very effective in reducing the number and types of observations in CFMS operations. We have also documented our compliance review processes and have sent this information to all Directors of Finance to indicate the level of scrutiny that is applied to their respective department's transactions.

Paragraph 28

The Procurement Module and accounts payable monthly reviews have proven to be very effective as a means of correcting any procedure not being followed correctly by departments. This is considered an effective way to train CFMS users to ensure they follow procedures. The Procurement Branch has reviewed the compliance documentation and has instituted a monthly report that is reviewed by the Director Purchases.

Paragraph 29

As mentioned earlier, all Procurement Module transactions are reviewed monthly. Observations have been brought to the attention of departments. Compliance reviews and the reporting regime guidelines will be incorporated in our internal procedures document. The Procurement Branch recently sent a document to all Directors of Finance providing details of our compliance review process and reporting mechanisms.

Recommendation 14.1

Agree - Policies and procedures are in place, including those used in the CFMS, to allow departments to follow the Procurement Policy. Ensuring adherence to policy will require a review of current resources assigned to this task, with a view to strengthening this compliance review effort, or seeking support from the government's internal audit group to move procurement to one of their major focal points in departmental audits.

Paragraph 31

The documentation on any procurement is in three places; the Procurement Branch, with the client department and with the vendor. All three sources contain different documents, depending on their needs, eg. Procurement Branch files do not contain invoices. Construction tenders are a good example where the majority of documents are held by the department, however, CFMS procedures require the Procurement Branch approval of the initial contract and any amendments. In addition, documentation related to delegated purchases of $5,000 for goods, $10,000 for services and construction would be held by departments to support those purchases.

Paragraph 32

Procurement Branch staff approve purchase orders over $25,000 for the departments assigned to them. Internal procedures will be amended to address the need to verify approvals with the appropriate buying group supervisor or seek direction from the Director Purchases prior to approving the purchase order.

Paragraph 33

This has been a discussion point on construction contracts and the current process is that awards are approved by the respective engineering group. The Procurement Branch issues the CFMS purchase order after reviewing the award recommendation. Amendments are recorded in the CFMS as soon as received from the engineering group. Although there are two methods of amending contracts, all amendments are entered in the CFMS. As suggested by the audit, a written protocol for amendments is being prepared by the Procurement Branch to cover construction contracts.

Paragraph 34

Procurement Branch has prepared a list of typical accounts payable transactions, eg. travel, fuel payments, grants. A monthly review covers any transactions that should be in the Procurement Module and departments are advised accordingly. An annual outreach program with departments covers the procedures to distinguish between procurement entries and accounts payable entries. The Comptroller, Department of Finance, has recently set up a joint Finance/Procurement working group, chaired by the Director of Purchases to review procedures for procurement and accounts payable, and provide recommendations for change.

Recommendation 14.2

Agree - These activities will be strengthened in our business plans, and will involve more training and outreach efforts, including augmenting the training currently being given to all new users of CFMS. It is also a subject being reviewed by the recently formed Procurement/Finance Review Group.

Paragraph 37

All alternate procurement forms for sole source purchases are reviewed by either the Director of Purchases or a senior purchasing supervisor, prior to logging into the report format.

Paragraph 38

Agree - For the most part, alternate procurement/sole source intentions are not discussed with the Procurement Branch prior to contractual commitment. A joint Procurement/Finance working group has been struck and one of its tasks will be to review the alternate procurement process and make recommendations.

Paragraph 39

The dollar figures are taken from the Procurement Branch Annual Report showing data extracted from the CFMS system. The internal log in the Procurement Branch shows only the alternate procurements reported by departments. A review of CFMS reports shows that further outreach and training for users is required, for example, users often record a purchase from a standing offer as sole source, as it is a purchase from a single company, even though the creation of the standing offer was done through a competitive process.

Paragraph 40

Procurement Branch, during its monthly compliance checks, has found the use of alternate procurements requires a regular outreach/training program for users. An outreach project was carried out in June 2002, focusing on this area. In addition, the CFMS training syllabus on procurement will be reviewed to determine if more information is needed on how to record this type of procurement in the corporate system.

Paragraph 42

There is no requirement in the Government Procurement Policy to report to Treasury Board on alternate procurements. There is no evidence to indicate deputy ministers are abusing the alternate procurement process. The only other method of controlling alternate procurements would be to have them all approved by the Purchasing Agency, however, this would require additional staff resources that are not authorized or FTE's not funded.

Paragraph 43

Accountability for alternative procurement practices rests with the deputy minister or CEO of each department/agency as specified in the Procurement Policy. It is our experience that deputy ministers/CEO's are aware of their responsibilities under the Procurement Policy. Procurement Branch has issued seventeen process/procedure documents and promulgated them via the Branch website to support the processes throughout government.

Recommendation 14.3

Agree - Action has been taken by two means; first, the topic will be part of the current Procurement/Finance review of CFMS procedures; second, there will be increased training and outreach to departments on alternate procurements. One outreach session was done in June 2002.

Paragraph 44

Agree - Performance reports will be done annually.

Recommendation 14.4

The Annual Report is presented to the Minister of Transportation and Public Works who may choose to present it to Cabinet or the House of Assembly. The report is also sent to the Auditor General's office for information. The report for next year and follow on years will be amended to include the record of all alternate procurements (un-tendered contracts) approved by the deputy ministers of the departments of government.

Recommendation 14.5

Agree - The Annual Report format will be amended to include a section for alternate procurements, as well as a summary of compliance reviews, training and outreach efforts done through the year. It will also report the annual review of all policy and procedure documents now scheduled for January 2003.

CROWN AGENCIES AND CORPORATIONS

15.

HIGHWAY 104 WESTERN ALIGNMENT CORPORATION

BACKGROUND

15.1 Highway 104 Western Alignment Corporation was established by Statute in 1995 and is responsible for the financing, design, construction, operation and maintenance of the Highway 104 Western Alignment. The Western Alignment is a 45-kilometre, four-lane, divided, toll highway linking Masstown and Thomson Station in northern Nova Scotia, and is part of the national highway system. The highway was built because in 1995 the major transportation link to and from the Province was a two-lane undivided road through the Wentworth Valley. When the project was approved by government it was primarily on the grounds of safety and the perceived high accident rate in the Wentworth Valley. The Western Alignment was constructed through a public-private partnership in 1996 and 1997.

15.2 The Western Alignment toll road was constructed in 20 months and opened November 15, 1997, two weeks ahead of schedule. The project was funded by a $27.5 million Federal government contribution, a $27.5 million Provincial government contribution, and $66.4 million of long-term debt issued by the Corporation. The original plan for the operation of the highway indicated that toll revenues would not be sufficient to pay all annual debt service costs until traffic volumes increased in the future. Accordingly, the expectation was for the long-term debt balance to increase (accrete) each year until 2006, at which time toll revenues would be sufficient to enable the Corporation to start paying on the principal balance of the debt. The debt is scheduled to be fully repaid by 2026.

15.3 The recorded cost of the highway, including some capitalized fees and interest costs incurred in the pre-operation period, is $124.6 million. At March 31, 2002, debt of the Corporation totaled $81.4 million. Due to higher than expected traffic volumes and toll revenues, the Corporation repaid $5.5 million of subordinated notes in advance of their planned 18-year maturity date. The Corporation's March 31, 2002 financial statements report revenues of $14,025,226, net earnings of $3,621 and an accumulated deficit of $10,976,268.

15.4 The Corporation is governed by a one-member Board. The sole director was appointed Chairman of the Board by Executive Council, and is also President of the Corporation. The Corporation has four staff members including the President. The Corporation contracts the management of the toll plaza to a private company which employs 37 people. Maintenance of the road is contracted to the Department of Transportation and Public Works (TPW).

15.5 The financial statements of the Corporation are audited annually by a private auditing firm. This is our second audit of the Corporation. In 1996 we examined the private partner selection process and the accountability structure and reporting established for the project. The results of the audit were presented in Chapter 11 of the 1996 Report of the Auditor General.

RESULTS IN BRIEF

15.6 The following are our principal observations from this audit.

- The Corporation reports to the Department of Transportation and Public Works on a timely basis, but TPW does not provide accountability information on the

Corporation to the House of Assembly. No corporate annual reports or business plans have been tabled in the House of Assembly.

- The Corporation does not have documented, defined performance measures that are formally monitored and reported.
- There are inconsistencies between the Highway 104 Western Alignment Act and subsequent Financial Measures legislation which have not been fully addressed by government.
- A primary objective for building the $124.6 million Highway 104 Western Alignment was to improve traveler safety. However, neither the Corporation nor the government have formally studied and reported deaths and accidents related to the new highway.
- The Corporation does not prepare a comprehensive business plan which includes goals, outcomes and performance measures.
- The Corporation is complying with its legislation and regulations. At the time of our audit, the Corporation was not complying with two requirements of 22 agreements to which it is a signatory.
- The Corporation has appropriate operating and capital budgetary processes. However, it does not perform regular cash flow projections as part of its planning process.
- The Department of Transportation and Public Works provides annual highway maintenance services and technical expertise for major highway repairs to the Corporation, but does not recover the full cost of the services.

AUDIT SCOPE

15.7 In September 2002 we completed a broad scope audit of Highway 104 Western Alignment Corporation in accordance with Sections 8 and 15 of the Auditor General Act. Our audit was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The objectives of this assignment were to examine and assess the:

- quality and timeliness of reporting to the Minister of Transportation and Public Works and the House of Assembly;
- planning, monitoring and control of the financial operations of the Corporation;
- compliance with Provincial legislation and regulations; and
- due regard for economy and efficiency in the Corporation's decisions and activities.

15.8 Audit criteria were developed to assist in our planning and conduct of the audit. The criteria were discussed with the Corporation and accepted as appropriate by senior management of TPW. Senior management of the Corporation acknowledged that the principles developed appear reasonable, but could not determine whether the criteria were suitable. The criteria are described in Exhibit 15.1.

15.9 As part of this assignment, we interviewed the staff of Highway 104 Western Alignment Corporation, the toll plaza management corporation and the Department of Transportation and Public Works. We also examined minutes, contracts, invoices and numerous other documents related to the toll highway.

PRINCIPAL FINDINGS

Accountability

15.10 There are four principal partners in the operations of the Highway 104 Western Alignment; the Province, the Corporation, the financiers, and the toll plaza operator. We reviewed the accountability structures in place (Exhibit 15.2) and reporting from the Corporation to the Province (through the Department of Transportation and Public Works).

15.11 *Corporation status* - The Corporation was created by the Highway 104 Western Alignment Corporation Act in July 1995. The Act notes the purpose of the Corporation is *"to provide financing, design, construction, operation, and maintenance of the Western Alignment of Highway 104 (Trans Canada Highway) in the Counties of Colchester and Cumberland by a partnership of the public and private sectors."*

15.12 The Corporation was structured to be a private entity at arms length from the Province. Several documents we examined note that a primary purpose of the Corporation was to ensure that project financing was 'non-recourse' to the Province; meaning the government would not be responsible for any default on the debt. The debt would not be recorded in the Province's financial statements and the Province's credit rating and borrowing capacity would be preserved. Accordingly, the Act declares that the Province is not liable for any debt of the Corporation and that the Corporation is not a crown corporation or an agent of the Province. The Act also exempts the Corporation from various Provincial legislation, including those relating to taxes and freedom of information and protection of privacy. However, the Act states *"the Corporation is an agency of government within the meaning of the Auditor General Act and that Act applies to the Corporation."*

15.13 The Provincial Finance Act defines a crown corporation as one where the Governor in Council is entitled to appoint and remove at least a majority of its directors, and where at least 90% of outstanding voting shares are owned by government. The government owns the Corporation's one outstanding share and appoints the sole Director of the Board. However, based on legal advice obtained by the Corporation, the definitive wording of the Corporation's enabling legislation gives it preeminence over the Provincial Finance Act.

15.14 *Accountability requirements* - The Corporation's accountability and reporting requirements are only defined in the various agreements to which the Corporation is a signatory, such as the Omnibus Agreement and the Senior Bond Indenture. The agreements provide for accountability only to the bondholders and the Province. The Corporation's enabling legislation is clear in its intention that the Corporation is not an agent of the crown. Accordingly, management of the Corporation maintains the Corporation has no direct accountability to the House of Assembly of Nova Scotia.

15.15 We previously reported (1996 Report of the Auditor General) that it was our opinion that the Corporation should be accountable to the House of Assembly since the Corporation is owned and controlled by the Province and is managing an asset situated on Provincially-owned land.

15.16 There have been no changes to the legislation since our last audit. During this audit, we observed that the Corporation's arms-length from government status does not exist in practice. The General Manager of the Corporation is on secondment from TPW, and the President was previously a Deputy Minister of TPW and is required by Order in Council to abide by the Government's Corporate Code of Conduct for Civil Servants. Staff of the Corporation seek direction from TPW management for operational decisions. Also, the financial statements of the Corporation are consolidated into the Province's annual financial statements. We continue to call for a recognition of formal accountability of the Corporation to the House of Assembly.

Recommendation 15.1

We recommend that the Corporation's accountability requirements be broader, and included in legislation so they may only be changed by the House of Assembly, to which we believe the Corporation is ultimately accountable.

15.17 *Accountability reporting* - Clauses in the Omnibus Agreement and the Senior Bond Indenture require the Corporation to submit monthly reports to the Province and quarterly reports to the bondholders' representative. The quarterly report to the bondholders' representative is approved by the President and the General Manager of the Corporation, and is also reviewed by the Corporation's external auditor.

15.18 The Corporation is complying with most major reporting requirements in the various agreements and is providing the information in a timely and complete manner. However, the significant information described below is absent from the Corporation's reporting to the bondholders' representative. Management indicated that this was due to an oversight and, subsequent to being informed of the matter, measures were undertaken to comply with the requirements.

- Article 7 of the Senior Toll Revenue Bond Indenture requires annual audited financial statements to disclose the budget in the Statement of Loss and Deficit. This is not being done.
- The trustee is not sent a statement of reimbursable expenditures from the toll plaza operator for review. Reimbursements to the operator are not held for 15 days so the trustee can review the expenditures prior to payment.

15.19 At the time of our audit, the Corporation was not complying with a requirement to compare and explain variances in year-to-date budget and actual results in quarterly financial statements. However, the Corporation started reporting this comparison and is now in compliance with this requirement of the Senior Bond Indenture.

Recommendation 15.2

We recommend ongoing monitoring of all agreements and indentures be undertaken to ensure compliance with all corporate requirements.

15.20 We also suggested that all internal and external statements of revenue and expenses include budget amounts approved by the bondholders' representative and the Province.

15.21 There is regular and timely reporting by the Corporation to the Province. The Corporation is represented on the Steering Committee for the Western Alignment which also has members from the Province. The Corporation is also a member of the Joint Advisory Committee which includes representatives from the Province and the toll plaza operator (Exhibit 15.2). The committees meet quarterly. There is a corporate Annual General Meeting which is attended by representatives from the Corporation and the government, the bondholders' representative, as well as the Corporation's legal and auditing firms. The Minister of Transportation and Public Works attends the Annual General Meeting and his Deputy Minister is a member of the Steering Committee. Through these meetings the Corporation advises the Minister and Deputy Minister on the Corporation's operations and status. Other TPW officials are members of the Joint Advisory Committee. During our audit we were informed that the Steering Committee did not meet for eight months during 2001, but has met three times in 2002.

15.22 The Corporation's annual report is prepared on a timely basis and is provided to TPW by October following the Corporation's March 31 year end. Although there is reporting from the Corporation to TPW, there is no direct reporting of significant corporate information to the House of Assembly. The Corporation's annual report has never been tabled in the House of Assembly and its business plan is not included in the government's publication of crown agency business plans tabled in the House. The Corporation's financial statements are included in the Provincial Public Accounts and other corporate information is available from the Corporation's website. However, the Corporation is a part of the government reporting entity (i.e., it is consolidated into the Province's financial statements) and we believe its annual reports and business plans should be tabled in the House of Assembly.

15.23 *Performance reporting* - The Corporation's 2001 annual report notes goals relating to customer service, highway serviceability, and a safe and efficient highway. However, the Corporation does not have formal defined performance indicators relating to these goals. Measurable performance indicators and targets should be developed to monitor and report progress toward corporate goals.

15.24 However, the Corporation does measure some aspects of performance. The various agreements with the bondholders' representative and the Province define contractual requirements of the Corporation (e.g., debt payment schedules). Through quarterly and monthly reporting and the Annual General Meeting, performance against contractual requirements is reported to the major stakeholders. The Annual Roadway Maintenance Agreement also specifies annual road maintenance performance standards and standards for collection of the tolls by the toll plaza management company which are measured and reported upon. The Corporation maintains a website which contains some current information on toll road operations.

15.25 In 1995, when the plan to proceed with the project was approved by government, one of the primary factors and highest priorities was the safety of travelers on public highways. It was anticipated that deaths and accidents would decline with the completion of a four-lane divided highway and diversion of all truck traffic to the new road. The Corporation's website states "*The existing two-lane highway has the highest percentage of trucks traveling on it in the province: on any given day, one in four vehicles – high-speed transport trucks heading to market and low-speed local traffic turning on and off the road – is an ongoing danger. More than 50 fatalities in the past decade make* [the] *highway an intolerable statistic, and one the new highway is designed to change.*" TPW compiles statistics on highway deaths and accidents (Exhibit 15.4). However, at the time of our audit, neither the Corporation nor TPW had studied or reported upon statistical trends relating to the safety of the Highway 104 Western Alignment.

Recommendation 15.3

We recommend that accident and death statistics be monitored by TPW or the Corporation and reported in the Corporation's annual report, along with any available explanations for trends or variances from expectations.

Financial Management

15.26 We examined a number of areas related to financial management. Our findings are reported in the following paragraphs.

15.27 *Business planning* - The Corporation prepared a business plan for the 2001-02 fiscal year at the request of the Provincial Treasury and Policy Board. This was the Corporation's first business plan. We observed that it did not document corporate goals, objectives, performance measures or outcomes, though corporate goals are identified in the Corporation's 2001 annual report.

Recommendation 15.4

We recommend that a more formal, comprehensive business plan be prepared each year and used to enhance the Corporation's planning and budgeting process.

15.28 *Financial reporting* - Monthly financial reports are submitted to the Province and quarterly financial reports are distributed to the bondholders' representative. Report content and preparation dates meet the requirements specified in the various agreements, with exceptions as described in paragraph 15.18 above. Audited financial statements are included in the Corporation's annual report and Volume 2 of the Public Accounts.

15.29 *Cash flow analysis* - Currently, no cash flow projections are being prepared by the Corporation on a regular basis. We believe cash flow projections would help support decision making in the Corporation's annual and longer-term planning processes with respect to debt and operational requirements. For example, the Debt Service Reserve requirement increases in 2006, and the Corporation will be required to have approximately $9 million in the Reserve account. At the time of our audit, the Reserve account balance was approximately $5 million.

Recommendation 15.5

We recommend the Corporation prepare a three to five-year cash flow projection based on management's best estimates of future operating results, debt repayment, road repairs, reserve funding, and other significant sources and uses of cash.

15.30 *Reserve funds* - The Senior Bond Indenture requires the Corporation to maintain three reserve accounts; the Project Account, the Capital Reserve Account, and the Debt Service Reserve Account. Management monitors these accounts to ensure compliance with the terms of the indenture. As required, a Debt Service Coverage Ratio is calculated and reported 30 days after the end of each quarter to the trustee and the bondholders' representative.

15.31 *Operational budgeting* - The Corporation has a timely budget process. The Corporation receives the budget of the toll plaza operator in August (for the year beginning on the following January 1) and sends the toll plaza budget to TPW for approval by October 1. As required, the Corporation's budget is sent to the bondholders' representative 60 days before the fiscal year begins on April 1.

15.32 *Capital budgeting* - The Corporation has a capital policy and budgeting process which involve approval by both the Province and the bondholders' representative prior to incurrence of capital expenditures. The Corporation has an independent engineer conduct regular analysis of long-term road maintenance requirements and projected expenditures to 2030. The study is conducted to ensure the Major Maintenance Reserve Fund is adequately funded. The Corporation uses projections in its budgeting process to plan for capital maintenance expenditures.

15.33 *Long-term planning* - A long-range planning process should consider variables such as demographics, infrastructure planning, traffic and capacity requirements and include financial information such as cash flow projections and anticipated capital and maintenance costs. A 30-year cash flow projection was prepared in 1996 as part of the business case to support the Western Alignment project. The Corporation has not updated the cash flow projections or done much other long-term planning because traffic volumes, revenues and resultant cash flows have exceeded the original projections.

Recommendation 15.6

We recommend that cash flow projections be prepared regularly to identify changes (e.g., predetermined toll increases, forecasted debt repayments) which may cause potential cash shortages or affect the Corporation's ability to fund reserve accounts.

15.34 *Audit recommendations* - The Corporation has implemented business process changes recommended by its external auditor, and there were no further recommendations for improvement in 2001. Our 1996 audit recommended that the Corporation review the project after a year or two of highway operations to examine the accuracy of the assumptions made in the business case to establish the Western Alignment's project viability. A study was conducted on the period of highway construction and a report was prepared by the TPW Internal Audit Division in 1996. However, no study was conducted on the first or second years of operation. We were informed by both TPW and Corporation officials that they saw no need for a review as the project is audited annually by an external auditor and the highway has exceeded forecasted traffic volumes and revenue flows.

Compliance with Legislation

15.35 The Corporation was created by the Highway 104 Western Alignment Act of 1995. It is a private corporation created by statute and, as such, has no memorandum of association or articles of incorporation. The sole objects of the Corporation are the financing, design, construction, operation and maintenance of the Western Alignment.

15.36 The capital of the Corporation consists of one share owned by Her Majesty in right of the Province and it is not transferable. By statute, the Corporation is not liable to taxation and is exempt from the Public Utilities Act, the Freedom of Information and Protection of Privacy Act, and the Provincial Finance Act.

15.37 When 22 agreements to finance, design, construct, operate and maintain the Western Alignment were signed in 1996, the Corporation's lawyers prepared a list of approximately 400 corporate and Provincial obligations. Corporation staff monitor the obligations and ensure the Corporation's compliance with its legislation.

15.38 On June 8, 2000 the Financial Measures (2000) Act received Royal Assent. Among other provisions, this legislation provided for stricter accountability of government organizations to government. The Corporation is specifically named as an entity which is expected to follow some of the new accountability requirements. The Corporation's lawyers reviewed the legislation and provided an analysis and opinion on its applicability to the Corporation. On August 18, 2000 the Corporation corresponded with TPW stating there is uncertainty about the authority of the Financial Measures (2000) Act over the business of the Corporation because of inconsistencies with the Corporation's enabling legislation. The Corporation has not received any instructions or directives from the government related to the applicability of the Financial Measures (2000) Act. Since then, the Financial Measures (2001) Act and the Financial Measures (2002) Act have been proclaimed in the House. We expect the applicability of these pieces of legislation to the Corporation is similarly in doubt.

15.39 We reviewed the Highway 104 Western Alignment Act and the Regulations to the Act and concluded that the Corporation is complying with its legislation. We noted that the Corporation's auditors, bondholders' representative and trustee receive regular informational reports and we understand they also monitor whether the Corporation is complying with various aspects of ongoing agreements. The Corporation also files quarterly certifications of compliance with the terms of the Senior Bond Indenture.

Value for Money

15.40 Corporation expenses for the year ended March 31, 2002 totaled about $15.1 million. Usually, the Corporation requests three quotes for purchases when an expense is expected to exceed $1,000. Several costs incurred by the Corporation, such as bondholder and trustee fees ($219,000) and amortization and depreciation ($1,484,000), are not suited to negotiation or tender. Interest on long-term debt ($8,315,000) is at a predetermined rate, but the Corporation has the option to redeem debt before its scheduled maturity.

15.41 When significant matters arise that may affect its costs or operations, the Corporation commissions studies by consultants or other experts to provide advice and options. In 2000 the Corporation requested a special study of the cash flow and debt position of the Corporation and a study of the effect of the Provincial Financial Measures (2000) Act. In addition, there are regular operational reviews of the toll plaza operations and various road maintenance studies.

15.42 *Provincial project studies* - One objective of the Western Alignment project was to construct the road at a cost which was lower than if it had been built by TPW. In April 1999 the Internal Audit Division of TPW completed a study of the Western Alignment project. It concluded the following.

- The design and construction costs of the toll road equaled what it would have cost if the P3 process had not been followed.
- The private partner employed creative solutions that were time savers.
- It was not determinable whether these creative solutions were cost savers.

15.43 As noted above, the study by TPW's internal auditors focused on design and construction costs. In the 1996 Report of the Auditor General we reported that the cost of borrowing to finance the toll road exceeded the Provincial borrowing rate by approximately 2%. At that time, we estimated that the current value of the cost of the higher interest rates would have been in the range of $20 million to $25 million, and concluded that the road likely cost more than if it had been financed by the government.

15.44 *Excess cash* - The Western Alignment's project financing was supported by a 1996 business case that projected expected traffic volumes, revenues and expenses. To date, the actual traffic volumes and resultant revenues have exceeded projected figures. The Corporation's $5.5 million subordinate note was repaid from excess cash in 1999 and 2000, approximately 18 years before the planned redemption.

15.45 In 2000 the Corporation commissioned a special study comparing the cash flow and debt position under four different alternatives over the 30-year life of the project. As a result of the options presented in the study, TPW directed the Corporation to use excess cash to repay debt, rather than remitting the cash to the Province.

15.46 The agreements signed to provide financing for the toll highway included commitments for regular toll increases. To 2001, tolls have been increased as planned. Toll revenues continued to exceed expected revenues. Consumer Price Index-based toll increases of $0.25 were planned for cars and recreational vehicles in 2002 and for trucks in 2003, but the Corporation received the agreement of the bondholders' representative to defer the planned toll increases until 2004. Seeking to defer the toll increases cost the Corporation approximately $90,000, which included $80,000 paid to the bondholders' representative to accept a waiver of toll increases. The Corporation projected that approximately $500,000 revenue would be lost in 2002, and $1,000,000 would be lost in 2003.

15.47 Corporate investments must be made in high quality, unconditionally guaranteed instruments which are defined as "permitted investments" in the financing agreements. Due to their quality, the $12.8 million of investments only earned an average interest of 2.84% in 2001-02. The interest rate paid on the outstanding debt of the Corporation exceeds 10%. If debt is repaid, a 'market make-whole premium' (a penalty for early debt payment) must also be paid to the debt holders.

Recommendation 15.7

We recommend that the Corporation determine whether it is more beneficial to hold excess cash or repay outstanding debt. The analysis should include reviewing cash flow projections to ensure the Corporation will have sufficient cash to meet all of its future obligations.

15.48 *Toll plaza operating contract* - The toll plaza is operated under agreement with a private company. The contract with the company could be renewed in 2002 or the Corporation could assume the duties of the toll plaza operator. According to agreement, if the duties were assumed the Corporation would have to pay the private operator a one-time $250,000 fee. However, the amounts paid to the operator include an annual 10% management fee ($143,775 for 2001-02). The Corporation performed an analysis of the toll plaza operating contract. Subsequent to the completion of our audit fieldwork, the Corporation decided not to exercise the option to take over the toll plaza operation.

15.49 *Highway maintenance and major repairs* - The Corporation is responsible for the maintenance of the toll highway. TPW provides annual and long-term highway maintenance in accordance with agreements with the Corporation. The agreements are eligible for renewal in 2003 and the terms of the agreements can be negotiated upon renewal. Costs of annual maintenance are paid by the Corporation to TPW and costs of long-term maintenance and repairs are paid by the Corporation directly to the selected contractor (through the trustee). Any cost incurred by TPW in managing annual and long-term repairs is recoverable from the Corporation.

15.50 TPW has set up separate accounts to accumulate and monitor the direct costs of annual maintenance. The Department performed a four-year analysis of its costs under the agreement for annual maintenance (e.g., snow removal, salting, line painting; $685,000 in 2001-02), and concluded that it is recovering from the Corporation all direct costs of providing the service. However, the Department estimates that indirect and other costs associated with services provided to the Corporation (2001-02 estimate - $190,000) could be in the range of 25% to 30% of its direct costs, and are not being recovered from the Corporation.

15.51 Due to a three-year warranty on the road's construction, 2001 was the first year any costs were incurred for major repairs (2001-02 - $1,174,708). TPW provides the technical and managerial expertise for major repairs and is reimbursed for its actual direct costs in providing these services. After we completed audit fieldwork, TPW set up a separate account to accumulate and monitor these costs.

Recommendation 15.8

We recommend that indirect and other costs associated with the annual maintenance and major repair services provided to the Corporation be identified, accumulated and monitored. TPW should consider whether future agreements with the Corporation provide for full cost recovery to the Department.

CONCLUDING REMARKS

15.52 In our opinion, Highway 104 Western Alignment Corporation should be accountable to the House of Assembly, and fulfill its accountability through reporting similar to that required of other government corporations and agencies. This would include tabling Corporate plans, as well as financial and non-financial performance reports, in the House.

15.53 The Corporation has appropriate systems and practices to manage the financial aspects of its operations. It complies with its corporate legislation and regulations, though there is uncertainty with respect to the application to the Corporation of subsequent Provincial financial measures legislation passed by the House of Assembly. We concluded that the Corporation conducts its operations with due regard to economy and efficiency.

Exhibit 15.1

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed audit tests and procedures. The following criteria were used in our audit of the Highway 104 Western Alignment Corporation.

- Reporting to the government and Minister should be timely. The annual report of the Corporation should be tabled in the House of Assembly on a timely basis. Accountability reporting should adequately address all significant areas of corporate responsibility and performance. There should be adequate systems to ensure the accuracy and completeness of information reported.

- There should be adequate planning and budgeting for the financial requirements of the Corporation. There should be regular and timely monitoring of financial performance. There should be adequate control over the assets, revenues and expenditures of the Corporation.

- Management should be aware of all legislation, regulations and agreements which apply to the Corporation. The Corporation should comply with all applicable legislation, regulations and articles. Management should monitor the Corporation's compliance with legislation, regulations and articles.

- Due regard for economy and efficiency should be a component of the Corporation's planning. Procurement should be conducted in a fair, open and competitive manner, in compliance with any government policies which apply to the Corporation. Reporting and monitoring processes should be adequate to enable management to oversee the efficiency and economy of its decisions and corporate operations.

Exhibit 15.2

HIGHWAY 104 WESTERN ALIGNMENT CORPORATION ACCOUNTABILITY STRUCTURE

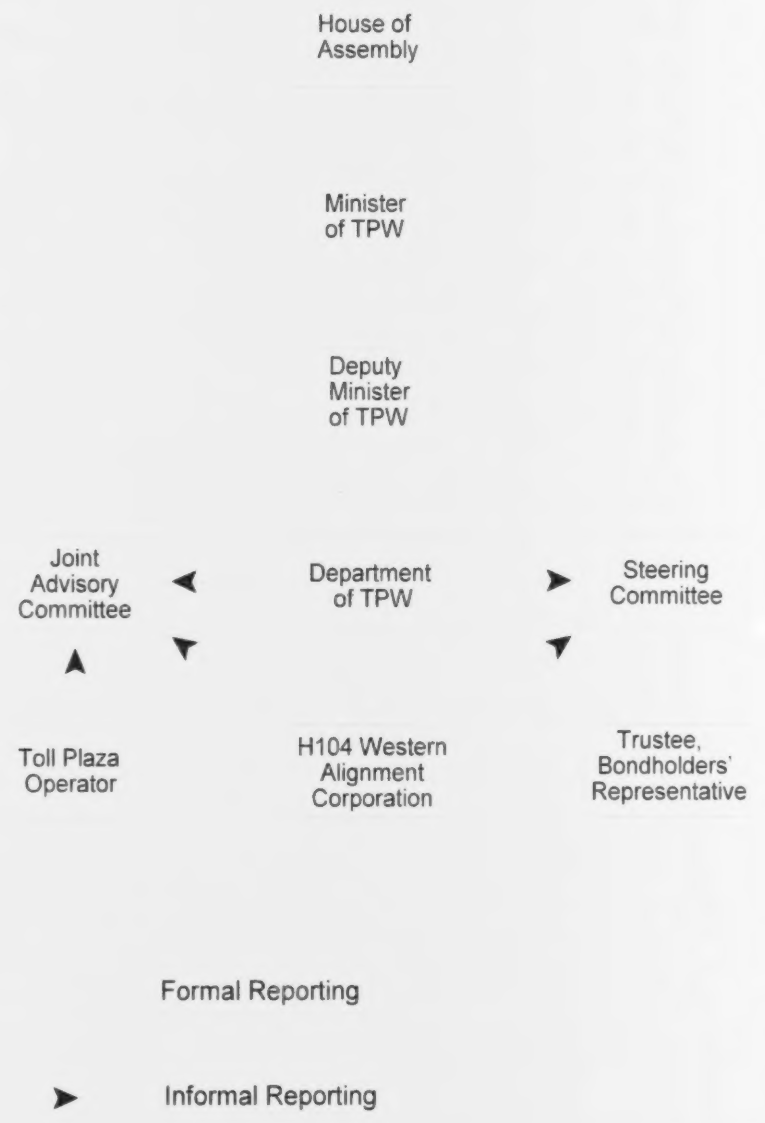
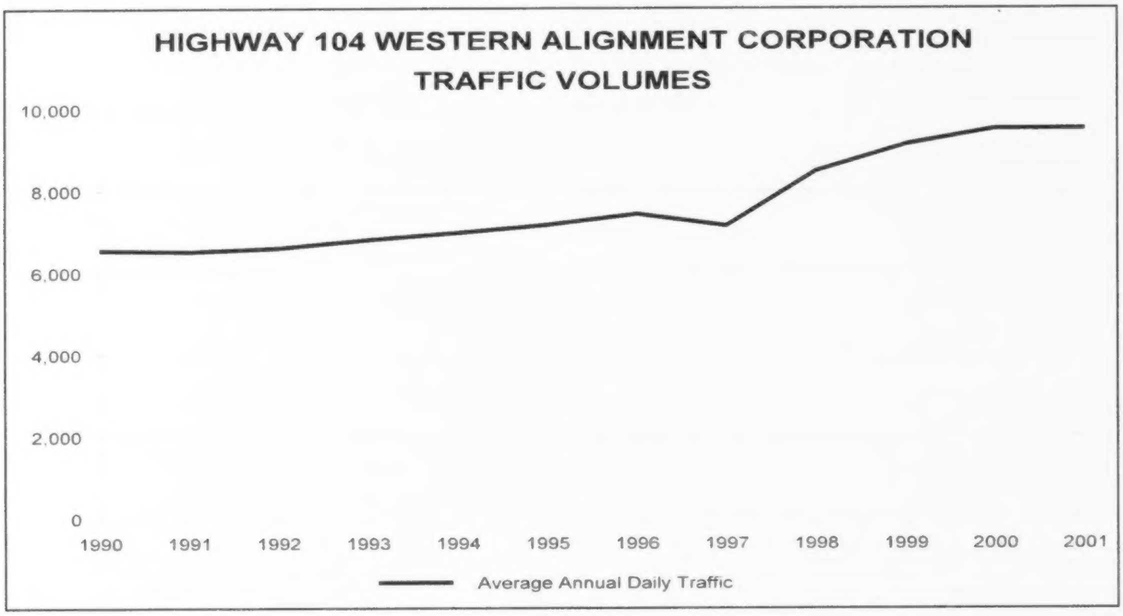

House of Assembly
Minister of TPW
Deputy Minister of TPW
Joint Advisory Committee
Department of TPW
Steering Committee
Toll Plaza Operator
H104 Western Alignment Corporation
Trustee, Bondholders' Representative
Formal Reporting
Informal Reporting

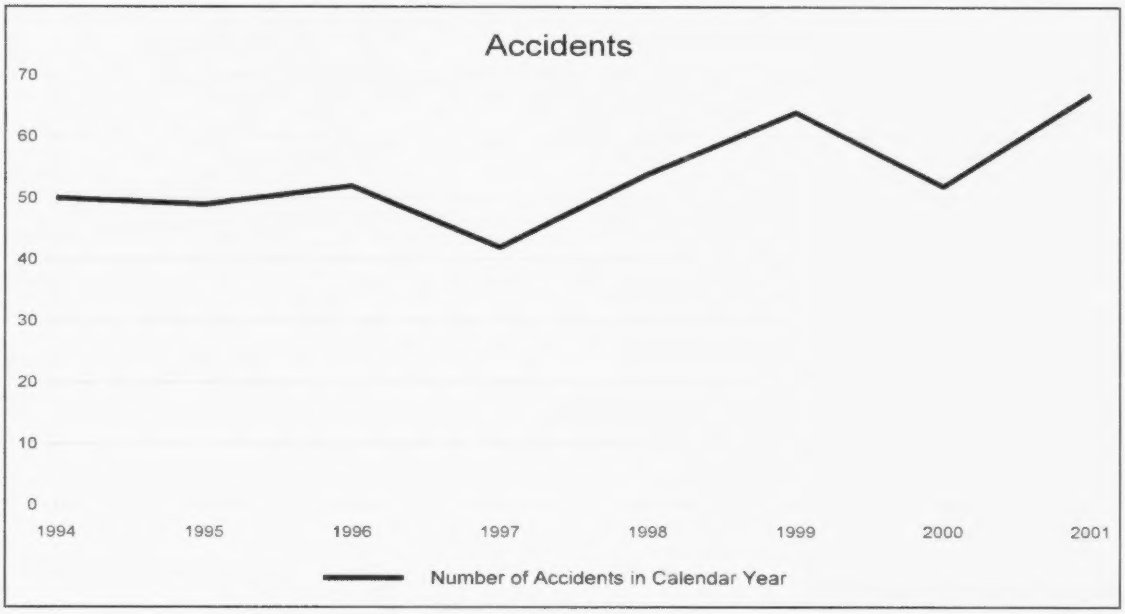
Exhibit 15.3

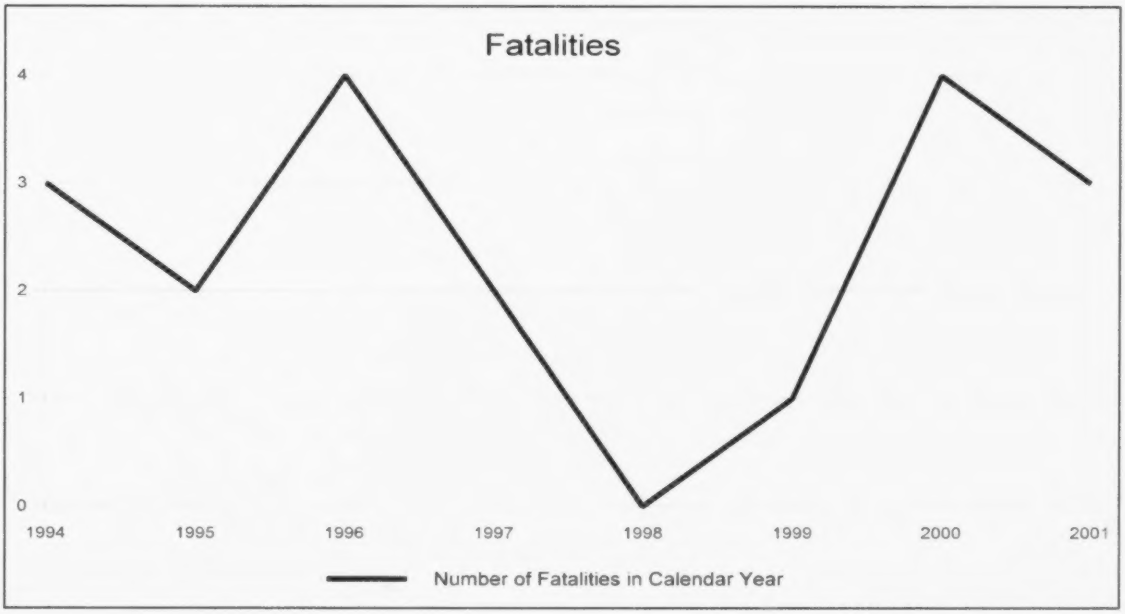


Western Alignment opened for traffic on November 15, 1997. Data presented to that date are for the old Trans-Canada two-lane road through the Wentworth Valley. After November 15, 1997 the data include the old two-lane road and the new divided four-lane Cobequid Pass.

Exhibit 15.4

HIGHWAY 104 WESTERN ALIGNMENT CORPORATION ACCIDENT AND FATALITY STATISTICS





Western Alignment opened for traffic on November 15, 1997. Data presented to that date are for the old Trans-Canada two-lane road through the Wentworth Valley. After November 15, 1997 the data include the old two-lane road and the new divided four-lane Cobequid Pass.

DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS' RESPONSE

The Department of Transportation and Public Works wants to acknowledge the time and effort spent by the Auditor General's office on the Highway 104 Western Alignment Corporation review.

We believe the report accurately reflects the operations of the Corporation and the Department's role in this important highway project.

It has become clear to transportation agencies across North America that controlled access highways are not only safer, but they provide many other social and economic benefits.

The twinning of Highway 104 from New Glasgow to the New Brunswick border, and recent improvements in that province, have combined to create a much more efficient transportation corridor. This route is an essential link for regional trade and tourism, and will help provide improved gateway linkages and mobility throughout Atlantic Canada. The Highway 104 Western Alignment Corporation played an important role in bringing this about.

As an economic corridor, this route connects Nova Scotia with the rest of Canada and to markets in the United States. It also carries North American traffic to Cape Breton, and via ferry, to Newfoundland.

And of course, safer, more efficient highways help tie our communities together.

16.

TRADE CENTRE LIMITED

BACKGROUND

16.1 Trade Centre Limited (TCL) was created in November 1981 by Order in Council and incorporated under the Nova Scotia Companies Act. The Province of Nova Scotia is the beneficial owner of all shares of the Corporation, which reports to the Minister of the Office of Economic Development.

16.2 The Order in Council establishing TCL indicates it was created *"for the purpose of constructing, managing and controlling Phase II of the Metro Centre Complex"*. This mandate indicates that the Corporation's primary purpose is to oversee and administer the activities related to the complex. A secondary purpose, flowing from the first, is to actively promote the facility, Halifax Regional Municipality and Nova Scotia.

16.3 TCL's operations are under the direct supervision of the President and Chief Executive Officer (CEO) who reports to a twelve-member Board of Directors (see Exhibit 16.1 on page 268). All Board members are appointed by the Executive Council. Four Board members are appointed upon nomination by the Halifax Regional Municipality (HRM).

16.4 TCL's operation is comprised of seven distinct operating units.

- Atlantic Canada World Trade Centre (to encourage and promote international trade)
- World Trade and Convention Centre (a meeting and convention facility)
- World Trade Centre Tower (consisting of leasable office space)
- Halifax Metro Centre (managed under agreement for the Halifax Regional Municipality)
- Maritime Fall Fair Association (to operate the annual agricultural fair)
- Events Halifax (to encourage and promote events in Halifax)
- Exhibition Park (transferred to TCL in 2001)

16.5 Our Office conducted a review of selected aspects of the operations of Trade Centre Limited in 1993 with a follow-up in 1994. The 1994 follow-up Report noted some progress had been made in addressing the findings noted in our 1993 Report. The 1994 follow-up review also noted plans to address the remaining findings.

16.6 Certain, but not all, matters reported upon in our 1993 and 1994 Reports have been addressed either by the actions of Trade Centre Limited or by government initiatives. Matters not fully addressed have been reconsidered and, if appropriate, included in this Report.

16.7 TCL's operating results have shown improvement since 1993. Current operating expenses have increased by 46.3% over 1993 levels, while revenues have risen by 79.1% over the same period.

As a result, current operating losses have declined by approximately $970,000 as compared to 1993. TCL's annual operating results are summarized in Exhibit 16.2 on page 269.

16.8 For the year ended March 31, 2002, TCL reported a loss of $1,575,312 (2001 - $1,272,024). TCL had accumulated deficits of $27,558,511 as at March 31, 2002 (2001 - $25,983,199). Accumulated depreciation on facilities represented 68.1% and 67.2% of the accumulated deficits of TCL at March 31, 2002 and 2001, respectively. TCL had a staff complement of 80 permanent positions at the time of this assignment. TCL also employs part-time and casual staff, based on levels of activity.

16.9 The Province currently leases approximately 55% of the available office space of TCL's Office Tower. The rental income from these leases accounts for over 75% of the total Office Tower rental revenue. The Province continues to sole-source office space from TCL.

16.10 The current review was substantially performed in January and February 2002, and completed in October 2002. The mandate for this review is provided by Sections 8 and 17 of the Auditor General Act.

RESULTS IN BRIEF

16.11 The following are the principal results from this year's review.

- Trade Centre Limited's formal governance and accountability arrangements need to be modernized. In our view, this should include defining comprehensive corporate bylaws and terms of reference for Board committees. We were advised that the TCL Board recently initiated a process aimed at updating and improving the governance and accountability arrangements for the Corporation.

- The agreement with Halifax Regional Municipality dated May 14, 1982 for the management of the Halifax Metro Centre should be reviewed to ensure it appropriately reflects current circumstances, including cost allocation or sharing arrangements and indemnities for TCL for contracts and operations related to Halifax Metro Centre.

- TCL has well-established and understood internal business and communication processes which include monthly internal financial reporting. Management has initiated a business process and organizational review using external consulting resources which is intended to identify opportunities for improvement. TCL has established performance indicators and targets for its business divisions and for the Corporation but has yet to initiate formal external reporting against these indicators and targets.

- TCL entered into a contract with the Canadian Hockey Association (CHA) in which TCL guaranteed CHA a minimum profit of $3 million on the World Junior Hockey Championships. The Provincial Finance Act requires Executive Council authorization for guarantees. The required authorization was not obtained. The Corporation indicated these statutory requirements were not communicated to TCL and that providing event performance guarantees is in the normal course of business.

- TCL's senior management were paid annual bonuses for the years ended March 31, 1997 to March 31, 2001 based on the recommendation of the CEO. Bonus eligibility and amounts were determined by the CEO. In the earlier years, bonuses were approved by the full Board and in later years by the Executive Committee of the Board. A formal process and criteria for determining bonus amounts and eligibility should be defined, implemented and documented.

SCOPE OF REVIEW

16.12 The objective of this assignment was to examine selected aspects of the operations of Trade Centre Limited to determine the adequacy of:

- systems and controls;
- compliance with statutory or other requirements; and
- due regard for economy.

16.13 The selected aspects of TCL's operations subject to review were:

- governance and accountability; and
- business line and performance management.

16.14 Criteria were developed to assist in the planning and conduct of the assignment. Our approach included interviews with senior management and the Chair of the Board, a survey of current and selected past Board members and an examination of legislation, Board and Executive Committee minutes and other documentation. We reviewed information necessary to support our assessment of the objectives, criteria, and management's representations regarding actions taken to address the findings noted in our 1993 and 1994 Reports.

PRINCIPAL FINDINGS

Governance and Accountability

16.15 Upon incorporation of TCL in 1981, the Articles of Association were prepared. The Articles of Association serve as the bylaws for TCL but have not been updated since incorporation. Since 1981, there have been developments in the areas of corporate governance, management and accountability as well as statutory changes which impact the operations of TCL.

16.16 The day-to-day management of TCL is the responsibility of the President and CEO supported by senior management. The overall governance and management of the Corporation is the responsibility of the Board of Directors. A chart describing the governance and accountability relationships for TCL can be found in Exhibit 16.1 on page 268.

16.17 Under the current Board member recruitment process, for Board members nominated by the Province, a general notice for interested parties is issued. Interested candidates forward a covering letter and résumé to the Executive Council Office. Applications are then forwarded to the Office of Economic Development and reviewed by a screening panel. The names and applications of qualified candidates are forwarded to the Minister of the Office of Economic Development. The Minister recommends the candidates for the Board positions. The Minister's recommendations are forwarded to the Executive Council which then forwards them to the Human Resources Committee comprised of Members of the House of Assembly representing all parties. Candidate qualifications are reviewed by the Committee and if approved, a recommendation is made to Executive Council for formal appointment to the Board.

16.18 Based on a discussion with the Chair of the Board and a review of survey responses, the Board of TCL is not involved in the current Board member recruitment process. The Chair of the Board indicated there is a need for the Board to be involved in the Board member recruitment process. She also expressed a willingness to participate in such a process.

16.19 Our review indicated TCL's formal governance and accountability arrangements need to be modernized. In our view, this should include defining comprehensive corporate bylaws and terms of reference for Board committees. We were advised that the TCL Board recently initiated a process aimed at updating and improving the governance and accountability arrangements for the Corporation.

16.20 The formal roles and responsibilities of the Board, the Chair and the CEO should be defined and documented in sufficient detail to clarify specific accountabilities and expected standards, as well as to facilitate performance evaluations.

16.21 There should be a formal job description or accountability statement for the CEO position. The current contract, which was renewed in January 1999, requires the CEO "*to faithfully, honestly and diligently serve as Chief Executive Officer, World Trade and Convention Centre under the direction of the Minister of Economic Development and Tourism.*" The contract does not provide any additional description or accountabilities for the position.

16.22 The contract with the CEO should include requirements for annual performance evaluations and reporting to government on the level of achievement of objectives. The contract should also include specified performance standards and expectations.

Recommendation 16.1

We recommend Trade Centre Limited's formal governance and accountability arrangements be modernized.

16.23 During the course of our review, the following compliance issues were noted.

- In December 2000, TCL entered into a contract with the Canadian Hockey Association (CHA) in which TCL guaranteed CHA a minimum net profit of $3 million on the World Junior Hockey Championships to be held in Halifax commencing in December 2002. The Executive Council authorization for guarantees, required under the Provincial Finance Act, was not obtained prior to the signing of the agreement for this event. TCL indicated that it was not made aware of the requirement for Executive Council approval for such financial transactions and obligations and that providing event performance guarantees is in the normal course of business. The need for TCL to provide guarantees should be reconciled with the applicable provisions of the Provincial Finance Act which require prior Executive Council approval.

Recommendation 16.2

We recommend Trade Centre Limited and the government reconcile the Corporation's need to issue event performance guarantees with the requirements of the Provincial Finance Act for prior Executive Council approval.

- The Corporation has a performance bonus system in place for senior management. TCL senior management indicated that they had been advised by the Director of the Pension Services Group at the Department of Finance that the bonuses were not pensionable. However, the policy statement from the Department of Finance's Pension Services Group states *"a performance based bonus paid to a member of the Public Service Superannuation Plan will be treated as salary as defined in subsection 2(j) of the Public Service Superannuation Act."* Therefore, it appears the bonuses paid by TCL were pensionable. See Exhibit 16.3 on page 270 for summary information on senior management compensation.

  TCL's bonus payments to senior management, who are members of the Public Service Superannuation Plan, were not included in determination of salary for purposes of the calculation of pensionable earnings as required by the Public Service Superannuation Plan. As a result, required contributions to the Public Service Superannuation Fund were not made for fiscal years 1997 to 2001.

- The Public Sector Compensation (1994-1997) Act was in force for the period April 29, 1994 to October 31, 1997. During our review, we noted increases in senior management annual compensation rates in 1997. We also noted the approval of senior management bonuses on June 24, 1997 totaling $82,000. These bonus amounts were budgeted for and included in the operating results of TCL for the year ended March 31, 1997 and distributed on November 17, 1997.

Recommendation 16.3

We recommend government, through the Department of Finance or Treasury and Policy Board, establish a communication strategy or process to ensure relevant statutory, policy or other requirements and initiatives are effectively communicated on a timely basis to all entities, their governing bodies and senior management included in the Government Reporting Entity. We also recommend TCL put in place a process to ensure the Corporation is aware of and in compliance with statutory or other requirements affecting its operations.

16.24 The Halifax Metro Centre (HMC) is managed by TCL under the agreement with the Halifax Regional Municipality dated May 14, 1982. HMC operating deficits are the responsibility of HRM and profits accrue to HRM. All contracts related to the operations of HMC are entered into by TCL.

16.25 Based on our review of the Halifax Metro Centre management agreement between TCL and Halifax Regional Municipality and discussions with senior management, there is no formal methodology for the allocation of costs between TCL and HRM. The HMC management agreement was unclear with respect to TCL's legal obligations relating to HMC operations. As a result, we were unable to assess the appropriateness of certain cost allocations or the legal obligations of TCL for HMC contracts and other operational agreements signed by TCL.

Recommendation 16.4

We recommend the agreement with Halifax Regional Municipality for the management of the Halifax Metro Centre be reviewed to ensure it appropriately reflects current circumstances, including cost allocation or sharing arrangements, and properly indemnifies TCL for contracts and operational risks related to HMC.

Business Line and Performance Management

16.26 TCL has well-defined processes for the development, review, monitoring and approval of its operating and capital budgets and its business and strategic plans. These processes involve all members of senior management and the Board. These processes were not subject to a detailed review during this assignment.

16.27 The goals and objectives of the business lines are clearly identified, defined and communicated and are aligned with the goals and objectives of the Corporation. TCL has economic impact studies prepared for its operations every two to three years. We noted TCL has established performance indicators and targets for its business divisions and for the Corporation overall. However, it has yet to initiate formal external reporting against these indicators and targets.

Recommendation 16.5

We recommend Trade Centre Limited initiate formal external annual reporting of performance against indicators and targets.

16.28 Trade Centre Limited has a well-established system of monthly internal financial reporting. TCL also has established internal business and communication processes. Based on our discussions with management, these processes appear to be well understood. Management has initiated a business process and organizational review using external consulting resources which is intended to identify opportunities for improvement.

16.29 TCL has a bonus system in place for senior management, including the CEO. Amounts and eligibility are determined by the CEO based on an assessment of operating results, which includes subsidies from HRM and excludes other income. TCL's annual operating results are noted in Exhibit 16.2 on page 269. Management has indicated that bonuses were included in the budget for the years ended March 31, 1997 to March 31, 2001 (see Exhibit 16.3 on page 270). In the earlier years, approval was by the full Board while in later years approval was by the Executive Committee of the Board. The bonus process and criteria used to determine eligibility and amounts are not well-defined or documented.

Recommendation 16.6

We recommend Trade Centre Limited establish a more formal and documented process for determining eligibility and amounts of annual bonuses for senior management.

16.30 Bonuses paid to all members of senior management ranged from 6.3% to 25.0% of salary (i.e., $3,500 to $30,000). Total bonuses paid ranged from 17.2% to 39.6% of combined operating income for the years 1997 to 2000 (i.e., $82,000 to $100,000). Bonuses totalling $89,500 were paid in 2001. Bonuses have not been paid in 2002.

16.31 Our Office conducted a compensation survey of the Provincial public sector in April 2000. The survey requested information on the salary and benefits being paid or provided in respect of employment in the Provincial public sector as at March 31, 2000. The survey requested information on other benefits such as bonuses. Information on TCL's bonus arrangements was not provided as part of the response submitted by the Corporation on May 10, 2000. TCL approved bonuses for the periods ended March 31, 1999 and 2000 on March 23, 1999 and May 16, 2000, respectively, with payment on March 30, 1999 and May 19, 2000, respectively. Management indicated that bonus amounts were included in TCL's budgets for these periods.

16.32 TCL currently utilizes the Province's payroll system but does not use it for the payment of bonuses to senior management. Use of the Province's payroll system for the payment of all employee compensation could avoid duplication of effort. The use of the Province's payroll system would also ensure compliance with existing statutory requirements (i.e., pension and tax withholdings).

16.33 We also noted the following with respect to the staff performance appraisal process.

- A review of senior management performance evaluations noted all had been completed, but six of the seven reviewed were not signed by the preparer and the employee. All performance evaluations should be signed by the preparer and the employee.
- Four of eight staff files reviewed did not contain performance evaluations or they were incomplete. Performance evaluations should be documented and completed on a timely basis.
- A review of staff position descriptions noted the position descriptions did not contain specific performance standards against which to evaluate staff. Performance standards should be established and clearly communicated and agreed to by staff.

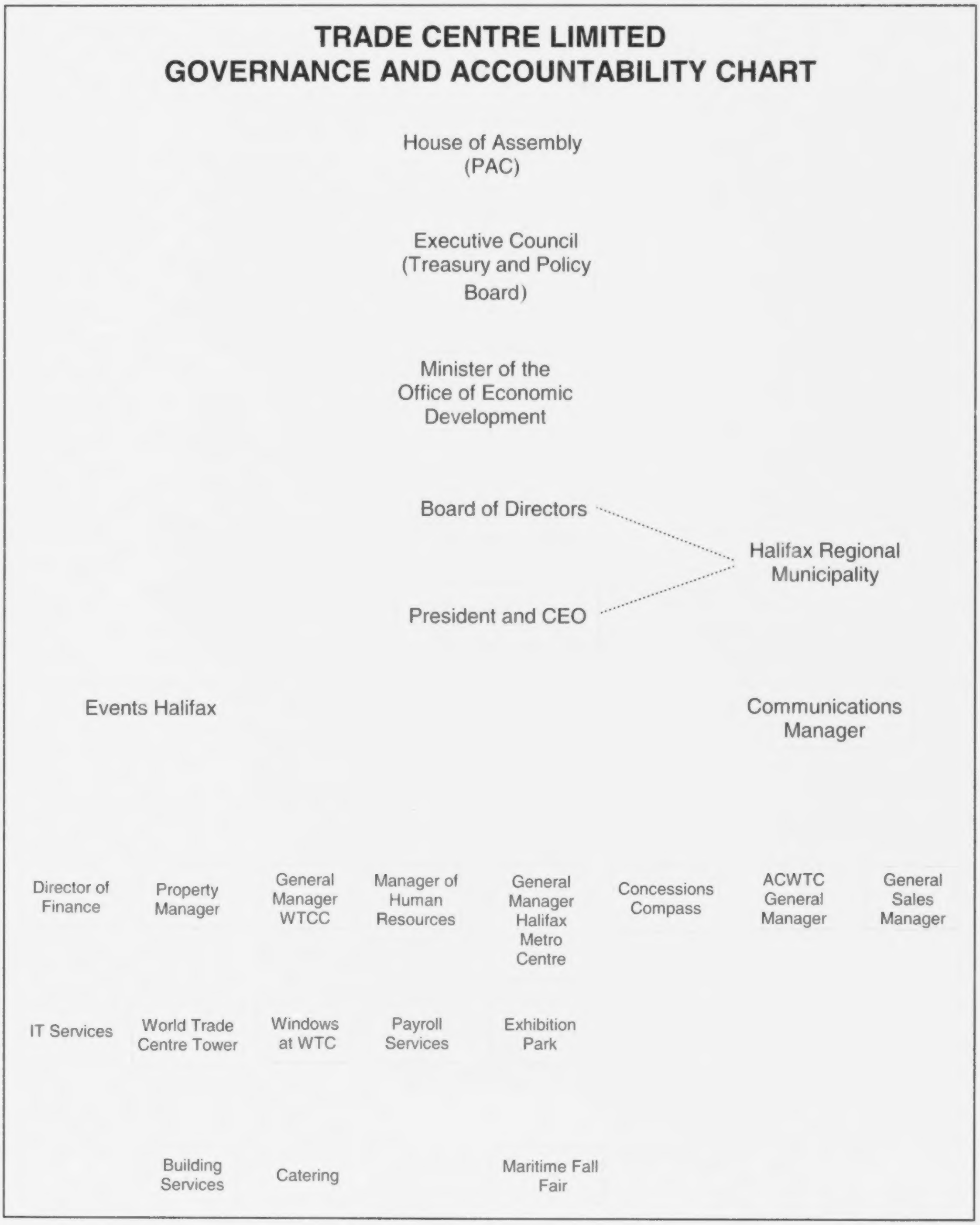
CONCLUDING REMARKS

16.34 Trade Centre Limited has been in operation for more than twenty years. It represents a significant and important infrastructure investment for the Province and the region.

16.35 Organizations such as TCL typically require periodic government support in order to maintain their operations and capital assets. TCL has not had to receive direct financial support from the Province for its operations since the fiscal year ended March 31, 1995. However, the facilities are more than twenty years old and there is currently no plan in place to address the long-term facility requirements of TCL. The government and TCL need to address this challenge to ensure TCL's ability to operate into the future.

16.36 TCL's Board and senior management should continue efforts to identify and implement improvements to the governance, accountability, and management policies and practices associated with the operations of the Corporation.

Exhibit 16.1



TRADE CENTRE LIMITED
GOVERNANCE AND ACCOUNTABILITY CHART

House of Assembly (PAC)
Executive Council (Treasury and Policy Board)
Minister of the Office of Economic Development
Board of Directors
Halifax Regional Municipality
President and CEO
Events Halifax
Communications Manager
Director of Finance
Property Manager
General Manager WTCC
Manager of Human Resources
General Manager Halifax Metro Centre
Concessions Compass
ACWTC General Manager
General Sales Manager
IT Services
World Trade Centre Tower
Windows at WTC
Payroll Services
Exhibition Park
Building Services
Catering
Maritime Fall Fair

Exhibit 16.2

TRADE CENTRE LIMITED (EXCLUDING HALIFAX METRO CENTRE)
FINANCIAL HIGHLIGHTS SUMMARY
For the Years Ended March 31

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenues										
Convention Centre	$ 2,571,465	$ 3,088,114	$ 3,802,500	$ 4,127,398	$ 4,117,489	$ 4,496,698	$ 4,223,703	$ 5,190,150	$ 5,122,152	$ 4,440,049
Office Tower										
PNS	1,430,952	1,429,487	1,379,246	1,419,982	1,410,113	1,601,689	1,596,041	1,519,182	1,695,850	1,697,953
Other	251,687	257,142	446,049	452,131	369,870	378,850	341,082	463,040	428,342	416,640
Exhibition Park	-	-	-	-	-	-	-	-	1,479,383	1,558,984
ACWTC & Windows	521,137	486,430	369,909	441,731	621,193	638,167	691,791	627,766	659,147	585,926
Other income	120,110	61,016	112,710	163,807	150,339	114,104	248,383	274,898	166,425	72,854
Revenues	4,895,351	5,322,189	6,110,414	6,605,049	6,669,004	7,229,508	7,101,000	8,075,036	9,551,299	8,772,406
Revenues % growth	*n/a*	*8.72%*	*14.81%*	*8.09%*	*0.97%*	*8.40%*	*-1.78%*	*13.72%*	*18.28%*	*-8.15%*
Expenses	6,271,898	6,343,359	6,732,941	6,780,479	6,709,702	6,992,029	6,982,832	7,796,888	9,746,545	9,178,525
Expenses % growth	*n/a*	*1.14%*	*6.14%*	*0.71%*	*-1.04%*	*4.21%*	*-0.13%*	*11.66%*	*25.01%*	*-5.83%*
Operating income (loss)	(1,376,547)	(1,021,170)	(622,527)	(175,430)	(40,698)	237,479	118,168	278,148	(195,246)	(406,119)
Amortization and depreciation	(1,236,283)	(1,210,735)	(1,148,194)	(1,078,866)	(1,060,063)	(1,418,004)	(1,468,381)	(1,556,937)	(1,548,703)	(1,642,534)
HRM subsidy	416,117	420,074	425,020	430,290	442,763	445,862	449,206	457,292	471,925	473,341
NS operating subsidy (surplus)	1,080,540	662,112	310,217	(91,053)	(251,725)	-	-	-	-	-
Loss for year	$ (1,116,173)	$ (1,149,719)	$ (1,035,484)	$ (915,059)	$ (909,723)	$ (734,663)	$ (901,007)	$ (821,497)	$ (1,272,024)	$ (1,575,312)
Budgeted deficit for year	(2,380,000)	(2,357,000)	(2,248,000)	(1,570,000)	(1,240,053)	(1,765,000)	(975,000)	(975,000)	(975,000)	(1,539,561)
Budget variance	$ 1,263,827	$ 1,207,281	$ 1,212,516	$ 654,941	$ 330,330	$ 1,030,337	$ 73,993	$ 153,503	$ (297,024)	$ (35,751)

Note: The above financial highlights are derived from the financial statements and related information of TCL.
n/a - not available

Exhibit 16.3

TRADE CENTRE LIMITED
SENIOR MANAGEMENT COMPENSATION
For the Years Ended March 31

	1997	1998	1999	2000	2001	2002
Trade Centre Limited (TCL)						
Operating income (loss) (before HRM subsidy, amortization, and operating subsidy)	$ (40,698)	$ 237,479	$ 118,168	$ 278,148	$ (195,246)	$ (406,119)
Bonuses allocated	*57,651*	*63,369*	*63,369*	*69,035*	*61,050*	-
Halifax Metro Centre (HMC)						
Operating income (loss)	165,549	194,263	65,081	38,919	44,960	232,373
Bonuses allocated	*24,349*	*26,631*	*26,631*	*30,965*	*28,450*	-
Combined Operations (TCL and HMC)						
Operating income (loss) (before HRM subsidy, amortization, and operating subsidy)	$ 124,851	$ 431,742	$ 183,249	$ 317,067	$ (150,286)	$ (173,746)
Total bonuses	*82,000*	*90,000*	*90,000*	*100,000*	*89,500*	-
Operating income (loss) before bonuses	$ 206,851	$ 521,742	$ 273,249	$ 417,067	$ (60,786)	$ (173,746)
Bonuses as a % of operating income before bonuses	39.6%	17.2%	32.9%	24.0%	n/a	n/a
Senior management salaries	$ 542,265	$ 639,863	$ 674,298	$ 728,245	$ 678,092	$ 679,771
Bonuses	82,000	90,000	90,000	100,000	89,500	-
Total	$ 624,265	$ 729,863	$ 764,298	$ 828,245	$ 767,592	$ 679,771
# of senior management staff	10	10	10	10	9	9
Bonuses as a % of individual salary						
Low	8.1%	8.2%	7.5%	6.6%	6.3%	n/a
High	25.0%	24.4%	23.6%	24.9%	23.1%	n/a
Increase in total senior management salaries	1.9%	18.0%	5.4%	8.0%	2.9%	0.0%
Increases as a % of individual salary						
Low	0.0%	11.5%	3.2%	0.0%	0.0%	0.0%
High	8.3%	64.4%	9.2%	13.1%	11.1%	0.0%

TRADE CENTRE LIMITED'S RESPONSE

Thank you for the opportunity to preview the Trade Centre Limited Draft Audit Report. I found the final report to be clearly documented and professionally presented. However, we do have a few points that I would like to see included in the published report for purposes of clarification as outlined in the attached documents.

Page 262 Results in Brief, Section 16.11

Paragraph 3

- *The remarks in this paragraph do not clarify between financial and non-financial performance measurements. Full financial measurement and reporting is done on monthly bases via our internal financial statements.*

Paragraph 4

- *Due to the business focus of both the Halifax Metro Centre and Events Halifax, an "event guarantee", is a normal course of business, no matter what the amount. It is important to note that a business case must be made that neutralizes Trade Centre Limited's risk, prior to moving forward. In this specific incident, the bid guarantee was fully supported by booked tickets equal to the guarantee when issued. The ticket orders were received in cash within six (6) months of the date of the guarantee.*

Page 264 Principal Findings, Governance and Accountability

Section 16.23

Paragraph 1

***To reiterate**,*

- *Due to the business focus of both the Halifax Metro Centre and Events Halifax, an "event guarantee", is a normal course of business, no matter what the amount. It is important to note that a business case must be made that neutralizes Trade Centre Limited's risk, prior to moving forward. In this specific incident, the bid guarantee was fully supported by booked tickets equal to the guarantee when issued. The ticket orders were received in cash within six (6) months of the date of the guarantee.*

Paragraph 2

- *Trade Centre Limited discussed this issue with Pension Services. It appeared that the type of bonus given was not pensionable earnings according to the Public Service Superannuation Plan. Both Trade Centre Limited and the Director of Pension Services discussed all issues pertinent to the type of bonuses and determined that the amounts were not pensionable due to the following reasons:*

- *The management bonus did not form part of the contractual obligations with any of the employees to whom it was paid (i.e. not guaranteed and discretionary).*

- *The management bonus was based on the financial performance of the organization in any given year and at the discretion of the President with Board Approval.*

- *If the bonuses formed part of the employment contract. And if they were guaranteed if the performance goals and objectives were met, regardless of the organization's performance, then Trade Centre Limited would have ensured that pension deductions were remitted.*

- *To ensure future compliance, the Director of Pension Services has advised Trade Centre Limited that a legal opinion would be considered if this should arise again in the future. This will eliminate any possibility of a contradiction of the PSSA Act.*

Section 16.25

With reference to cost allocations between TCL and HMC - they are consistently reviewed on an annual basis and particularly at year-end to determine if changes or adjustments are required. The allocations are based upon actual direct costs identified at source, formulas based upon patterns of use over time and by actual metered charges. Our external auditors as part of their annual audit review examine the allocations on an annual basis.

Trade Centre Limited sought advice from Patterson Palmer Law our current legal advisors. We inquired as to the potential liability of Trade Centre Limited and its shareholders with respect to signing contracts relating to the Metro Centre and the liability of the Province of Nova Scotia as shareholder of Trade Centre Limited. The general nature of the contracts entered into by Trade Centre Limited do not appear to fall within any extraordinary circumstances in which the fundamental rule of company law (i.e. limited liability exists to protect shareholders from liability incurred by the company) might be lifted. Therefore, the separate legal status of Trade Centre Limited should be respected and the Province, as shareholder, would generally not have any liability as shareholder arising in respect of liabilities incurred by Trade Centre Limited.

Section 16.23

Paragraph 3

Trade Centre Limited was informed about the Public Sector Compensation Restraint (1994-1997) Act by the Public Sector Compensation Restraint Board. Trade Centre Limited worked diligently with the Compensation Restraint Board to ensure we followed the specifics of Bill 52. Timely information was received from the Chairperson and the Administrator & Chief Executive Officer of the Public Sector Compensation Restraint Board. Trade Centre Limited found the Board to be informative, timely and responsive to our questions and concerns.

Page 266 Principal Findings, Business Line and Performance Management

Section 16.27

The remarks in this paragraph do not clarify between financial and non-financial performance measurements. Full financial measurement and reporting is done on monthly bases via our internal financial statements.

Section 16.28 and 16.29

Trade Centre Limited does not agree with the analysis of operating income and as outlined in Exhibit 16.2 and 16.3. Please see ***Exhibit A*** *as submitted by Trade Centre Limited.* [Note that TCL's Exhibit A has not been included in this Report.]

Trade Centre Limited financial reporting is in accordance with Generally Accepted Accounting Principles (GAAP). A review of the Public Accounts of the Province of Nova Scotia, Volume 2 Agencies and Funds for the fiscal year 2000-2001 reveals many examples where provincial grants and funding is reported as gross revenues. This is consistent with Trade Centre Limited reporting, in accordance with GAAP, as shown in our annual audited financial statements.

Exhibit 16.2 reports the Halifax Regional Municipality (HRM) payments as a subsidy to be reflected after operating income. These funds are guaranteed by the Agreement and are restricted to the support of the convention centre and its financial operations, and not for the general operation of Trade Centre Limited. Therefore, the HRM funds are more accurately reflected as a revenue item as it is reported in our audited financial statements.

Bonus Amounts for Trade Centre Limited in Exhibit 16.3 have been restated to reflect the change in basis of measurement as defined by TCL, in our opinion ***Exhibit B*** *is a more accurate representation.* [Note that TCL's Exhibit B has not been included in this Report.]

However, we feel Halifax Metro Centre information is outside the scope of this audit since the facility is owned by the Halifax Regional Municipality and only managed by Trade Centre Limited. Moreover, as our legal counsel has indicated there is no legal liability for the Province of Nova Scotia with respect to the HMC's operation.

17.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

17.1 The financial statements of crown corporations, agencies and funds of the government of Nova Scotia, and trusts administered by the government of Nova Scotia, are in some cases audited by the Office of the Auditor General and in other cases by private sector auditors licensed under the Public Accountants Act. A list of crown corporations, agencies, funds and trusts that prepare annual financial statements is included in Appendix II of this Report, on page 291.

17.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where financial statements are reported on by private sector auditors. This Chapter of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

17.3 The financial statements of the Public Archives of Nova Scotia were subjected to a review, rather than an audit, as the operating budget of the Archives is now part of the annual budget of the Department of Tourism and Culture.

FINANCIAL STATEMENT AUDITS BY PRIVATE SECTOR AUDITORS

17.4 We reviewed the audited financial statements and reports prepared by private sector auditors. Our review focused on whether:

- there were any qualifications of auditors' opinions on the financial statements;
- there was any indication of inadequate controls over accounting records; and
- there was timely preparation and audit of annual financial statements.

17.5 The following observations resulted from our review.

Reservations of Opinion

17.6 The following entity's auditors issued qualified audit opinions on the financial statements.

17.7 *Art Gallery of Nova Scotia* - As a charitable organization, the Art Gallery of Nova Scotia derives revenues from donations, special events, corporate campaigns and other sources. The completeness of this revenue is not susceptible to conclusive audit verification. This is the usual situation for charitable organizations.

Financial Controls and Records

17.8 In certain instances, private sector auditors reported weaknesses in internal control in management letters to crown corporations or agencies. The following are selected observations from the management letters issued and available for our review.

- The auditors of the IWK Health Centre noted that a complete disaster recovery plan is not in place.
- The auditors of the Annapolis Valley Regional School Board noted the need for increased control over fundraising at the school level.
- The auditors of the Halifax Regional School Board made reference to weaknesses in internal controls and policies and procedures related to the information technology system for Board administration and schools. Although they noted improvements in the payroll area, they still had concerns about weaknesses in the related internal controls.

  Concerns were raised surrounding computer access controls in the schools and the lack of a formal disaster recovery plan for the Board.

  Auditors reviewed controls over program revenues for summer school and raised concerns about deficiencies in basic controls to ensure completeness of revenue.

  The auditors also noted a need for a capital assets sub-ledger to control capital assets.
- The auditors of the Southwest Regional School Board reported concerns over the lack of a formal disaster recovery plan.
- The auditors of District Health Authorities 1, 2, 3, 4, 5 and 6 noted concerns over the level of computer controls.
- The auditors of the Nova Scotia Community College noted that there should be a disaster recovery plan in place.
- The auditors of the Waterfront Development Corporation noted concerns surrounding access and password controls.

FINANCIAL STATEMENT AUDITS BY THE OFFICE OF THE AUDITOR GENERAL

17.9 The Auditor General is responsible for the annual audit of the summary consolidated financial statements of the Province of Nova Scotia. See Chapter 2 for comments and observations.

17.10 The Auditor General is also responsible for the annual financial statement audits of certain crown corporations, agencies, funds and trusts. The following observations resulted from such audits conducted by or for the Office. For the year ended March 31, 2002, the Office contracted ten financial statement audits with private sector audit firms. The Office signed contracts with these firms and provided oversight supervision for the audits. The auditor's report for each set of financial statements was signed by the Auditor General of Nova Scotia.

Reservations of Opinion

17.11 The result of an audit is an opinion on whether financial statements present fairly the financial position of the entity at its fiscal year end and the results of its operations for the year then ended. Where there are qualifications of an audit opinion or situations in which it was not possible to render an opinion, we believe it is appropriate to report on the matter.

17.12 The auditors' reports on the March 31, 2002 financial statements of Nova Scotia Business Incorporated's Nova Scotia Business Fund and Industrial Expansion Fund were qualified because approval of write-offs was outstanding when the statements were released. Section 23 of the Provincial Finance Act requires all such write-offs be approved by the Executive Council. Subsequent to the release of the financial statements, the write-offs were approved by an Order in Council.

17.13 The auditor's report on the March 31, 2002 financial statements of the Nova Scotia Talent Trust was qualified because the Trust derives revenues from fund raising activities and donations. The completeness of this revenue is not susceptible to conclusive audit verification. This is the usual situation for this type of organization.

17.14 The auditor's report on the March 31, 2002 financial statements of the Public Trustee was qualified because the nature of the Public Trustee's operations makes it impossible to provide an opinion on the completeness of its trust assets. This is not an unusual situation for trust funds.

17.15 The auditor's report on the March 31, 2002 financial statements of the Atlantic Provinces Special Education Authority was qualified because the Authority derives revenues from donations and bequests. The completeness of this revenue is not susceptible to conclusive audit verification. This is common for such an organization. The Report was also qualified because the accounting for Public Service Awards payable to employees upon retirement is on a cash basis. The amount of the required adjustment cannot be determined as an actuarial valuation has not been performed.

17.16 The auditor's report on the March 31, 2002 consolidated financial statements of the Nova Scotia Housing Development Corporation was qualified because the revenues and expenses pertaining to the Rural and Native Housing Program contracted to the Ki'Knu Housing Commission Society are not audited, but are included in the consolidated financial statements of the Housing Development Corporation.

System Weaknesses

17.17 During the Office's financial statement audits, situations were noted where accounting and control systems or procedures were deficient. Although they were not of a magnitude to require reservations of the audit opinion, a number of these situations are summarized in this Chapter.

17.18 *Nova Scotia Business Incorporated (NSBI) and Industrial Expansion Fund (IEF)* - An annual verification of contract terms which relate to loan forgiveness is required to ensure loan forgiveness is only earned in accordance with the terms of the loan contract. Concern was also expressed over the level of computer controls and the lack of a formal disaster recovery plan. A process should be put in place to allow NSBI to collect the necessary information to prepare financial statements which comply with generally accepted accounting principles.

17.19 As part of the wrap-up of the Nova Scotia Business Development Corporation (NSBDC) (which had been assigned responsibility in the early 1990's for the assistance accounts provided through the IEF), various roles and responsibilities for the IEF and its accounts became problematic. The new Nova Scotia Business Incorporated (NSBI) was designated to 'administer' the IEF accounts. However, 'administer' was not defined and NSBI's interpretation of the scope of its roles and responsibilities for the IEF and its accounts was significantly less than what had previously been done by NSBDC.

17.20 This situation resulted in significant delay in the finalization of the audit of the IEF's March 31, 2002 financial statements. More importantly, without full and appropriate resolution, the roles and responsibilities for the IEF will be fragmented between NSBI and the Office of Economic Development.

17.21 *Nova Scotia Legal Aid Commission* - The Commission needs to reconcile the accounts payable sub-ledger to the general ledger on a timely basis. Concern was also expressed over the level of computer controls.

17.22 *Nova Scotia Gaming Corporation* - For the year ended March 31, 2003, the Corporation should start including a statement of cash flow in its annual financial statements. The results of a separately contracted review of internal controls identified various opportunities for improvement.

17.23 *Nova Scotia Public Trustee* - The Trustee should move from the cash basis to the accrual basis of accounting in order to comply with Canadian generally accepted accounting principles. A reconciliation of the mailbook to the deposit slips is needed.

17.24 *Atlantic Provinces Special Education Authority* - Formal policies to address collection and regular summary reporting of overdue accounts receivable and the approval of write-offs should be put in place.

Legislative and Policy Compliance Considerations

17.25 We noted situations where there was lack of compliance with legislation or policy. Although they were not of a nature to require a reservation of the audit opinion, some were significant enough to warrant discussion in this Chapter.

17.26 *Members' Retiring Allowances Act* - Amendments need to be made to the Act to allow for the issuance of a formal waiver from the Canada Customs and Revenue Agency with regard to member contribution limits. A separate account should be formed for the Members' Supplementary Retiring Allowances Plan to allow for the segregation of contributions, interest, refunds and allowances from the Members' Retiring Allowances Plan.

Timeliness of Financial Reporting

17.27 In our view, as a minimum, financial statements should be available for release within six months of year end. The Province's summary consolidated financial statements for 2001-02 were not released within six months of year end.

17.28 It should be noted that recent amendments to the Provincial Finance Act now require that financial statements for government business enterprises and government service organizations be submitted to the Minister of Finance before June 30 following the fiscal year end. Not all entities were successful in meeting the reporting deadline this year.

17.29 For example, due to delays in finalizing actuarial valuations and the market value of a private investment holding, the annual financial statement audits of the Public Service Superannuation Fund, the Nova Scotia Teachers' Pension Fund, and the Sydney Steel Corporation Superannuation Fund could not be reported upon until late November 2002. Management of the Funds needs to take appropriate and timely steps to ensure final audited statements are available by the June 30th reporting deadline prescribed in the Provincial Finance Act.

17.30 The Province's summary consolidated financial statements for the fiscal year ended March 31, 2002 were released in December 2002 prior to the statutory deadline of December 31.

OTHER AUDIT OBSERVATIONS

18.

ADDITIONAL APPROPRIATIONS

BACKGROUND

18.1 Every year the Estimates, representing the government's spending plans, are presented to the House of Assembly for review and approval. The Estimates are summarized in the Appropriations Act, which provides the spending authority for the coming year.

18.2 The review and debate by the House of government's annual Estimates culminates in the approval of spending authority limits (i.e., appropriations), and has a long and well-established tradition in the parliamentary process.

18.3 The Provincial Finance Act provides Executive Council with the authority to approve adjustments to these spending plans in the form of additional appropriations. The Provincial Finance Act also permits Executive Council to approve special warrants when an expenditure, which was not provided for in the original Estimates, is urgently and immediately required.

18.4 Exhibit 18.1 on page 282 includes extracts from the Provincial Finance Act relating to additional appropriations and special warrants.

18.5 Section 9(2)(e) of the Provincial Finance Act requires that the *Public Accounts* include a summary listing of any additional appropriations or special warrants authorized for the fiscal year. Under Section 9A(1)(c) of the Auditor General Act, we are required to call attention to every case in which an appropriation was exceeded and every case in which a special warrant was made pursuant to the provisions of the Provincial Finance Act.

RESULTS IN BRIEF

18.6 The following are the principal results from our 2002 review of additional appropriations and special warrants.

- Additional appropriations totalling $450.2 million and $183.4 million were approved by Order in Council (OIC) in September 2002 for the years ended March 31, 2001 and March 31, 2000 respectively.

- Additional appropriations required for the year ended March 31, 2002 are yet to be approved by OIC. Under Section 28(4) of the Provincial Finance Act as amended May 30, 2002, OIC approval now needs to be obtained "*no later than ninety days after tabling of the Public Accounts*".

- There were no special warrants approved for the 2001-02 fiscal year.

SCOPE OF REVIEW

18.7 The objective of our annual review of additional appropriations and special warrants was to determine if they were properly authorized in accordance with the provisions of the Provincial Finance Act.

PRINCIPAL FINDINGS

Additional Appropriations

18.8 Additional appropriations required for the year ended March 31, 2002 are yet to be approved by OIC. Under Section 28(4) of the Provincial Finance Act as amended May 30, 2002, OIC approval now needs to be obtained *"no later than ninety days after tabling of the Public Accounts"*.

18.9 Additional appropriations totaling $450,202,560 and $183,371,278 were approved by OIC in September 2002 for fiscal years 2001 and 2000 respectively (see Exhibit 18.2 on page 283). The timing of those OIC approvals impairs the effective control by and accountability to the House of Assembly for expenditures in excess of original spending authority limits.

18.10 It must be acknowledged that a significant portion (i.e., more than half) of these totals relate to changes in accounting policies necessary for the Province to adhere to generally accepted accounting principles (GAAP) which would not have been considered in the estimates process for those years.

Special Warrants

18.11 There were no special warrants approved for the 2001-02 fiscal year.

CONCLUDING REMARKS

18.12 Current legislation and administrative practices impair the effectiveness of the House of Assembly's control over the spending of public funds. The practice of obtaining after-the-fact approval for additional spending authority does not constitute or support *effective control.*

18.13 Recent statutory changes establishing a deadline for obtaining additional appropriations have resolved an administrative challenge of government regarding compliance. However, parlimentary control of and accountability for government's spending are at risk of being further impaired because the statutory provisions do not require approval prior to spending.

Exhibit 18.1

EXTRACTS FROM THE PROVINCIAL FINANCE ACT
(As revised May 30, 2002)

Additional appropriations
28 (1) Where the amount provided in an appropriation is insufficient to carry out the purpose for which the appropriation was made, the principal officer having responsibility for the service shall make a report of that fact to the Minister and shall, in such report, estimate the supplemental sum required to carry out the service.

(2) Upon receipt of a report pursuant to subsection (1), the Minister may make a report to the Governor in Council showing the need for the additional appropriation and the Governor in Council may order that such supplemental sum as is deemed necessary be appropriated accordingly.

(3) Commencing with the fiscal year 2001-02, an order under subsection (2) shall be made no later than ninety days after the tabling of the Public Accounts following the end of the fiscal year for which the appropriation that is supplemented was made.

(4) The Minister shall, within fifteen days of the making of an order pursuant to subsection (2), table the order in the House of Assembly if the House is then sitting or, if it is not then sitting, with the Clerk of the Assembly.

Special Warrant
29(1) When it appears that an expenditure which was not provided for by the Legislature is urgently and immediately required for the public good, the head of the department concerned shall make a report of that fact to the Minister of Finance and shall in such report estimate the amount of the proposed expenditure.

(2) Upon receipt of such report, the Minister may make a report to the Governor in Council that the said expenditure is urgently and immediately required for the public good, and that there is no legislative provision therefore, and the Governor in Council may thereupon order a special warrant to be prepared to be signed by the Lieutenant Governor for the issue of the amount estimated to be required, and may order the amount to be charged to Capital Account or to Current Account, or partly in one way and partly in the other.

(3) A special warrant pursuant to the provisions of this Section shall not be made when the Legislature is in session unless the House of Assembly has not sat for any of the five days immediately preceding the issue of the special warrant.

Exhibit 18.2

ADDITIONAL APPROPRIATIONS APPROVED

Department	**2000**	**2001**
Department of Agriculture and Marketing	$ -	$ 549,143
Department of Business and Consumer Services	-	269,725
Department of Community Services	3,054,479	7,866,633
Department of Economic Development	-	-
Departmental Operations	-	-
Funds for Strategic Investment	28,994,653	15,915,346
Department of Education	96,000,552	13,867,000
Department of Justice	2,668,423	-
Assistance to Universities	-	2,257,000
Department of Health	-	61,247,798
Emergency Measures Organization of Nova Scotia	171,741	1,038,503
Government Contributions to Benefit Plans	144,278	20,638,907
Technology and Science Secretariat	19,122,126	-
Nova Scotia Petroleum Directorate	-	502,556
Department of Transportation and Public Works	-	4,057,829
Capital Purchase Requirement (TCA)	-	287,524,120
Debt Service Costs	26,528,526	-
Sinking Fund Instalments and Serial Retirements	6,686,500	34,468,000
	$ 183,371,278	$ 450,202,560

19.

CASH AND OTHER LOSSES

BACKGROUND

19.1 The Government of Nova Scotia Management Manual 200, Chapter 8 requires that departments, boards, or commissions report any instances of loss of public money or public property to the Department of Finance and to the Office of the Auditor General. Finance is responsible for establishing procedures to be followed for the reporting of any irregularities or losses.

19.2 Section 9A(1)(e) of the Auditor General Act requires that we report annually every case observed where there has been a deficiency or loss through fraud, default or mistake of any person. This Chapter summarizes the losses identified by or reported to us by entities included as part of the Government Reporting Entity (see Appendix II for listing).

RESULTS IN BRIEF

19.3 The following summarizes the principal findings from our review.

- The losses reported to us for the year ended March 31, 2002 totaled $215,562; consisting of cash losses of $24,267, property losses estimated at $287,869 and recoveries of $96,574. In addition, Regional School Boards reported losses of $704,275 and recoveries of $19,903 for the year.
- Not all departments and crown agencies comply, on a timely basis, with the loss reporting requirements of the Management Manual.

SCOPE OF REVIEW

19.4 Our objective was to review the information provided by departments and agencies and compile a summary listing of the cash and property losses reported to us for the year ended March 31, 2002. This review did not consider write-offs of uncollectible receivables or advances approved annually by Executive Council.

19.5 We sent letters to departments and other crown entities to confirm the completeness of the losses reported to us. We have performed no additional or specific audit procedures on the losses reported.

PRINCIPAL FINDINGS

Losses Reported

19.6 The following is a summary of the cash and property losses for the year ended March 31, 2002 identified either as a result of our confirmation request or reported to us during the year. Losses reported for property lost or damaged are determined by the entities on a historical cost, estimated market value or estimated replacement cost basis.

Departments Reporting Losses	**Cash**	**Property**	**Recoveries**	**Total**
Agriculture and Marketing	$ 754	$ -	$ -	$ 754
Economic Development	-	2,500	-	2,500
Environment and Labour	438	-	-	438
Finance	-	3,000	-	3,000
Health	-	3,550	-	3,550
Justice	645	7,750	-	8,395
Service Nova Scotia and Municipal Relations	2,443	-	-	2,443
Tourism and Culture	1,391	5,000	-	6,391
Transportation and Public Works	-	12,152	-	12,152
	5,671	33,952	-	39,623
Other Crown Entities Reporting Losses				
Highway 104 Western Alignment Corporation	4,627	-	(3,285)	1,342
Nova Scotia Liquor Commission	11,961	84,334	-	96,295
Cape Breton Island Housing Authority	-	34,741	(32,006)	2,735
District Health Authority #9 (Capital District Health Authority)	-	19,469	(18,417)	1,052
District Health Authority #4 (Colchester East Hants District Health Authority)	-	10,479	(3,200)	7,279
District Health Authority #5 (Cumberland Health Authority)	-	18,781	(13,281)	5,500
District Health Authority #7 (Guysborough Antigonish Strait District Health Authority)	-	2,875	(2,375)	500
Emergency Measures Organization of Nova Scotia	1,083	-	(569)	514
IWK Health Centre	-	25,486	(16,089)	9,397
Nova Scotia Community College	768	56,274	(6,374)	50,668
Nova Scotia Arts Council	-	1,478	(978)	500
Nova Scotia Securities Commission	157	-	-	157
	18,596	253,917	(96,574)	175,939
Total Reported	$ 24,267	$ 287,869	$ (96,574)	$ 215,562

19.7 Losses or potential losses which are the subject of forensic audits and other investigations, either completed or in process in 2001-02, are not included due to the sensitive nature of the information.

19.8 Losses and recoveries of the Regional School Boards have been excluded from the above listing due to the fact that the Boards have their own insurance system.

19.9 The Regional School Boards reported cash losses totaling $704,275, and they received $19,903 in recoveries during the year ended March 31, 2002. An insurance claim of $703,927 arising from one of the incidents of loss, plus related costs, has been submitted but not yet settled.

19.10 With regard to the Nova Scotia Liquor Corporation, it should be acknowledged that it is a retail organization. As such, it is subject to different risks of losses. The property losses reported for the Nova Scotia Liquor Corporation represent the cost of inventory stock losses from its retail and warehouse operations. As a self-service retail organization, it is inevitable that some inventory shrinkage will occur.

19.11 A notebook computer stolen from the Auditor General's home was subsequently recovered and returned.

Compliance with Reporting Requirements

19.12 Not all entities are complying with the requirement to report losses on a timely basis to the Department of Finance and this Office. Failure by some entities to report consistently and on a timely basis restricts Finance's ability to ensure that necessary follow-up procedures are performed to determine the reason for a loss and whether appropriate corrective action has been taken.

19.13 As stated above, losses are to be reported to both this Office and the Department of Finance. Finance provides this Office with a summary of the losses reported to it during the year. There were differences in both the number and value of the losses reported to Finance and those reported to this Office. The following departments, reporting losses to this Office, either did not report losses to Finance or reported lesser amounts:

Agriculture and Fisheries
Economic Development
Environment and Labour
Finance
Health
Justice
Service Nova Scotia and Municipal Relations
Tourism and Culture

19.14 Of the other crown entities that reported losses to this Office, only one reported losses to Finance.

CONCLUDING REMARKS

19.15 None of the specific losses reported to us for the 2001-02 fiscal year were investigated further by our Office at this time. We will consider the results of any follow-up work on the reported losses by the Department of Finance or Internal Audit as part of future reviews.

APPENDICES

Appendix I

AUDITOR GENERAL ACT

SECTION 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

(1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

SECTION 9A

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

SECTION 9B

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

SECTION 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

SECTION 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

Appendix II

FINANCIAL STATEMENTS

Entity	*Classification*	*Financial Statement Auditor*
Agricultural Organizations		
Nova Scotia Crop and Livestock Insurance Commission	GSO	Auditor General
Art and Cultural Organizations		
Art Gallery of Nova Scotia	GSO	Ernst & Young
National Sports Centre Atlantic	GPA	Deloitte & Touche
Nova Scotia Arts Council	GSO	Hornby Tinkham Marshall
Nova Scotia Talent Trust	Trust	Auditor General
Public Archives of Nova Scotia	GSO	PricewaterhouseCoopers (review)
Educational Institutions		
Annapolis Valley Regional School Board	GSO	Mackenzie, Morse and Brewster
Atlantic Provinces Special Education Authority	GPA	Auditor General
Cape Breton Victoria Regional School Board	GSO	Roach Perry Anderson
Chignecto-Central Regional School Board	GSO	KPMG
Collège de l'Acadie	GSO	Saxton Comeau
Conseil Scolaire Acadien Provincial	GSO	Saxton Comeau
Halifax Regional School Board	GSO	Grant Thornton
Nova Scotia Community College	GSO	Deloitte & Touche
Southwest Regional School Board	GSO	Grant Thornton
Strait Regional School Board	GSO	Grant Thornton
Environmental and Natural Resource Organizations		
Canada-Nova Scotia Offshore Petroleum Board	GPA	Deloitte & Touche
Nova Scotia Primary Forest Products Marketing Board	GSO	Auditor General
Nova Scotia Resources Limited	GBE	KPMG
Resource Recovery Fund Board Incorporated	GSO	Grant Thornton
Sydney Environmental Resources Limited	GSO	J.T. Nash Limited
Tidal Power Limited	GSO	Unaudited
Gaming and Alcohol Organizations		
Atlantic Lottery Corporation	GBPA	KPMG
Interprovincial Lottery Corporation	GBPA	KPMG
Nova Scotia Gaming Corporation	GBE	Auditor General
Nova Scotia Gaming Foundation	GSO	Auditor General
Nova Scotia Harness Racing Incorporated	GSO	Auditor General
Nova Scotia Liquor Corporation	GBE	KPMG

Entity	*Classification*	*Financial Statement Auditor*
Health Organizations		
Canadian Blood Services	GPA	KPMG
District Health Authority 1 (South Shore District Health Authority)	GSO	Deloitte & Touche
District Health Authority 2 (South West Nova District Health Authority)	GSO	Deloitte & Touche
District Health Authority 3 (Annapolis Valley Health Authority)	GSO	Deloitte & Touche
District Health Authority 4 (Colchester East Hants District Health Authority)	GSO	Grant Thornton
District Health Authority 5 (Cumberland Health Authority)	GSO	Grant Thornton
District Health Authority 6 (Pictou County Health Authority)	GSO	Grant Thornton
District Health Authority 7 (Guysborough Antigonish-Strait District Health Authority)	GSO	KPMG
District Health Authority 8 (Cape Breton District Health Authority)	GSO	KPMG
District Health Authority 9 (Capital District Health Authority)	GSO	Ernst & Young
Insured Prescription Drug Plan Trust Fund	GSO	Unaudited
IWK Health Centre	GSO	Grant Thornton
Nova Scotia Health Research Foundation	GSO	Lyle Tilley Davidson
Provincial Drug Distribution Program	GSO	Ernst & Young
Housing Authorities (Note 1)		
Annapolis Valley Housing Authority	GSO	Mackenzie, Morse and Brewster
Cape Breton Island Housing Authority	GSO	KPMG
Eastern Mainland and Cobequid Housing Authorities	GSO	Deloitte & Touche
Metropolitan Regional Housing Authority	GSO	Grant Thornton
South Shore Housing Authority	GSO	Mackenzie, Morse and Brewster
Tri-County Housing Authority	GSO	Saxton Comeau
Justice Organizations		
Law Reform Commission	GSO	Unaudited
Nova Scotia Legal Aid Commission	GSO	Auditor General
Nova Scotia Police Commission	GSO	Grant Thornton
Public Trustee Trust Funds	Trust	Auditor General
Lending Organizations and Funds		
Fisheries and Aquaculture Loan Board	GSO	Auditor General
Industrial Expansion Fund	GSO	Auditor General
Nova Scotia Business Incorporated	GSO	Auditor General
Nova Scotia Farm Loan Board	GSO	Auditor General
Nova Scotia Film Development Corporation	GSO	Levy Casey Carter MacLean
Nova Scotia Government Fund	Trust	Deloitte & Touche
Nova Scotia Housing Development Corporation	GSO	Auditor General
Nova Scotia Municipal Finance Corporation	GSO	KPMG

Entity	*Classification*	*Financial Statement Auditor*
Pension and Disability Organizations and Funds		
Members' Retiring Allowances Act Account	Trust	Auditor General
Nova Scotia Public Service Long Term Disability Plan Trust Fund	Trust	Lyle Tilley Davidson
Nova Scotia Teachers' Pension Fund	Trust	Auditor General
Public Service Superannuation Fund	Trust	Auditor General
Sydney Steel Corporation Superannuation Fund	Trust	Auditor General
Workers' Compensation Board of Nova Scotia	Trust	Ernst & Young
Tourism Organizations		
Check Inns Limited	GSO	Unaudited
Sherbrooke Restoration Commission	GSO	Deloitte & Touche
Upper Clements Family Theme Park Limited	GSO	Auditor General
Transportation Organizations		
Halifax-Dartmouth Bridge Commission	GBE	Levy Casey Carter MacLean
Highway 104 Western Alignment Corporation	GBE	Grant Thornton
Rockingham Terminal Incorporated	GSO	Unaudited
Other		
Council of Maritime Premiers	GPA	PricewaterhouseCoopers
Nova Scotia Freedom of Information and Protection of Privacy Review Office	GSO	Grant Thornton
Nova Scotia Innovation Corporation	GSO	Auditor General
Nova Scotia Power Finance Corporation	GSO	Deloitte & Touche
Nova Scotia Utility and Review Board	GSO	Grant Thornton
Sydney Steel Corporation	GBE	KPMG
Trade Centre Limited	GSO	KPMG
Waterfront Development Corporation	GSO	Grant Thornton

GBE -	Government Business Enterprise
GPA -	Government Partnership Arrangement
GSO -	Government Service Organization
GBPA -	Government Business Partnership Agreement

Note 1 - The Housing Authorities are included in the financial statements of the Province through the Nova Scotia Housing Development Corporation.